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Tuesday June 5 1990

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BULGARIA
A campaign of fear and food shortages
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World News | Business Summary

Germany, France ignore call to end UK beef ban

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s call to revoke their bans
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sands of unemployed".
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d Communist Party
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's commitment to political
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ner Rouge snub
r Rouge leader Khieu
han boycotted the open-
ssion of Cambodian
talks in Tokyo, dimming
of a breakthrough in
the 11-year civil war.

mir coalition bid
k Shamir, Israel's Prime
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sition towards Washing-
aid increasing calls in
b press to boycott US
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Ukrainian chief
an Communist Party
adimir Ivashko was
president of the Soviet
second-largest republic
ore than 100 radical
s walked out of parlia-
protest.

Olav 'critical'
's King Olav, 86, the
oldest reigning mon-
covered some move-
a paralysed leg but
d in critical condition
tal after a stroke.

US stocks soar past 2,900 to new record high

US stocks lurched back to life after a slow start on Monday to close with a strong gain and another record high for the Dow Jones industrial average.

The 30-stock Dow average, which closed above the 2,900 mark for the first time on Friday, rose a further 34.22 points to 2,935.19. Advances led declines by an 11-4 margin on the New York Stock Exchange, where volume was a moderate 174 million shares.

MARKETS: Italy fell on profit-taking, while optimism about inflation lifted Spain; most other European bourses were closed for the Pentecost holiday. In Tokyo, early gains mostly slipped away and the Nikkei average finished slightly higher than Friday's close but below its opening level. Back page, Section II

Saatchi & Saatchi, the troubled communications company, is expected to announce the sale of the Hay Group, the US-based management consultancy, when its interim results are published this afternoon. Page 25

SOVIET parliament approved an important law designed to bring enterprises one step closer to a genuine market place. Page 24

ROBERT Maxwell, publisher of Mirror Group Newspapers, is in the market to buy a leading daily newspaper in the American Midwest. He said the publication, which he refused to name, was valued "in the mid-hundreds of millions." Page 25

NIPPON Telegraph and Telephone Corporation (NTT), Japan's biggest telecommunications company, confirmed that equipment made by Motorola of the US will be the sole standard for the Japanese digital mobile phone system. Page 9

SOVIET President Mikhail Gorbachev, meeting with the chief executives of the largest US companies, urged increased American investment in the Soviet Union. He told them: "The potential for collaboration is enormous." Page 4

STATOIL, Norwegian state oil company, has uprated estimates for the country's total oil resources by 17.5 per cent. Page 36

FUJI Photo Film, Japan's leading maker of photographic film, edged up worldwide net profits 3.9 per cent in its first half to April 20, to reach Y44.12bn ($291.6m) although sales grew by a faster 13 per cent to Y508.8bn. Page 27

MORGAN Stanley, Wall Street securities company, is splitting its investment banking division in two, separating client-based business from merchant banking operation. Page 30

INDIAN industrialists have welcomed new industrial policy announced by the Government last week, saying that substantial abolition of controls has removed bureaucratic delays and encouraged investment. Page 6

BOND Media, operator of Australia's Channel Nine television network, met with opposition from the National Companies and Securities Commission (NCSC), the country's securities watchdog, which barred Mr Alan Bond's companies from voting through its planned change of control. Page 27

THORN EMI, the music, rental and technology group, said it is selling four of the six divisions of Systron Donner, its California-based subsidiary, to BEI Electronics of San Francisco for $22m. Page 31

PAKISTAN'S economy has made substantial gains this year but is likely to fall short of targets set by the International Monetary Fund under an economic reform programme. Page 6

Gorbachev revisits past and seeks help for future

PRESIDENT Mikhail Gorbachev must have felt a frisson of nostalgia when he greeted former President Ronald Reagan over breakfast in San Francisco yesterday, writes Lionel Barber in San Francisco.

The meeting was a throw-back to an earlier, more predictable era when superpowers were superpowers, when the collapse of Communism collapse seemed a distant prospect and the US President could call the Soviet Union an "evil empire" and get away with it.

The Soviet Union has agreed in principle to open diplomatic relations with South Korea. Hyun Hong-choo, South Korean ambassador to the UN, said he hoped details would be ironed out in talks the last night between President Gorbachev and President Roh Tae Woo of South Korea. Moscow is anxious to strengthen trade links with Seoul and, in return, South Korea hopes Moscow will lead on North Korea's President Kim Il Sung to open talks on reunification between north and south.

For Mr Reagan, 79, and Mr Gorbachev it was a chance to remind the world of their joint contribution to bringing the Cold War to an end.

For Nancy Reagan and Raisa Gorbachev, the old sparring partners, it was a chance to hang up their gloves. "We've always been friends," said Mrs Reagan.

The gathering came at the start of a hectic day for the Soviet leader. His schedule included meeting the cream of California's high-technology company executives, a visit to Stanford University and its renowned business school, and a historic mini-summit with President Roh Tae Woo, of South Korea.

It was the first visit to the area by a Soviet leader since Nikita Khrushchev's explosive US tour in 1959. At that time, the Soviet Premier lost his temper when informed that safety concerns ruled out a trip to Disneyland. "What's the matter?" Khrushchev shouted. "Have you got a rocket launcher there, or has there been a cholera epidemic?"

During his tour, Khrushchev ridiculed "the slaves of capitalism." These days, however, Mr Gorbachev is wooing private US business with a fervour bordering on desperation.

UK, US insurance brokers unveil $1.8bn merger plan

By Patrick Cockburn in London

WILLIS FABER of the UK and Corroon & Black of the US have agreed to merge to create the world's fourth largest insurance broker - to be called Willis Corroon - with market capitalisation of £1.08bn ($1.83bn).

The merger is part of the trend towards concentration in insurance broking. Other major British and American brokers have established transatlantic links through a series of takeovers in the 1980s.

Mr Roger Elliott, chairman of Willis Faber, said the merger was necessary because insurance broking was becoming more competitive, clients wanted global insurance protection and the primacy of the London insurance market had declined.

After the merger, to be completed in September, the shareholders of Willis Faber and Corroon & Black are expected to hold 60 per cent and 40 per cent respectively of the issued share capital of Willis Corroon.

This reflects the market capitalisation of the two companies which on June 1 was £685m for Willis and £395m for Corroon. Pre-tax profits for 1989 were £62m and £35m respectively, and combined revenues totalled £608m.

The merger will be carried out by an issue of new Willis Faber shares on the basis of 7.8 Willis Faber shares for every Corroon & Black share. Mr Elliott will become executive chairman of the new company, while its board will be drawn equally from the two companies.

The two companies' operations will complement each other as neither has significant strength in the other's domestic market.

Willis Faber, the second largest UK broker, had in the past depended on US broker Johnson & Higgins for its US retail business while Corroon & Black had no business outside the US.

The UK broker said it had wanted to enter the US retail insurance market, which generates half the world's insurance premiums, and achieve a better balance between its UK and overseas earnings.

At the same time Willis needed to increase its profits from retail and consultancy business as opposed to wholesale insurance broking - dealing directly with companies seeking insurance rather than other brokers - as well as servicing the worldwide insurance needs of multinational companies.

Mr Elliott said he expected few redundancies as the two companies overlapped very little. The new company will have 11,000 employees.

He said that Johnson & Higgins, with whom Willis has long had links, was "upset" when told of the merger. The move is also likely to prove a lethal blow to UNISON, the worldwide confederation of brokers designed to service multinational business, of which Willis has been a key member.

Nevertheless Willis had clearly come to feel that its reliance on foreign retail brokers for much of its business had become a straitjacket, denying the UK company access to retail insurance markets abroad. Corroon & Black similarly wanted to expand outside its own domestic market in the US.

Lex, Page 24; London stock exchange, Page 37.

FT begins printing edition in Japan

The Financial Times today begins printing its International Edition in Tokyo for distribution in Japan, other Asian countries and Australia.

The addition of Tokyo, the newspaper's fifth printing site, extends its strategy of being available in business centres throughout the world on the day of publication. The FT is already printed in Frankfurt, West Germany; Roubaix, near Lille in northern France; and in Bellmawr, New Jersey, as well as in London.

The edition produced for Japanese readers will be virtually the same as that distributed in the US and in other Asian countries.

However, the front page will carry a panel in Japanese highlighting articles appearing on other pages.

Mr David Palmer, chief executive, said: "Tokyo is one of the world's three major financial centres, and Japan is the world's most dynamic industrial economy. That is why the FT is making Japan its first Asian printing centre."

Japanese readers would be able to buy the FT eight hours before it was available in Europe, he said.

Readers and advertisers in Japan would become familiar with the FT as the leading medium for pan-European advertising, Mr Palmer said.

Japan is already the FT's second highest source of advertising revenue outside Britain.

Sales of the International Edition account for about one-third of the newspaper's total circulation of nearly 290,000, and 35 per cent of the FT's advertising revenue comes from outside the UK.

Japan's economy back on course, Page 22; Editorial comment: living with success, Page 22; Adding up the security equation, Page 23; Eastern promise for the FT, Page 23.

Trump in talks with bankers on plan to sell off assets

By Roderick Oram in New York

MR DONALD TRUMP, the heavily indebted New York real estate investor who epitomised the hyped-up deal making of the 1980s, said yesterday he was holding discussions with his main bank lenders on restructuring his debt and the possibility of selling off large chunks of his assets.

Bankers close to the negotiations said Mr Trump's creditors had grown concerned about the health of his real estate, casino and airline empire since reports of a financial squeeze began to surface last month.

Borrowing some $2bn from banks and raising another $1bn in the junk bond market, Mr Trump bought or developed some prime properties in the 1980s. However, cash flow from them appears to be falling about $40m a year short of debt service payments.

He is believed to be up to date with his debt payments, but his lenders are worried he will find it harder to service his loans in coming months, particularly if his Atlantic City casinos fail to meet their ambitious goals.

The possibility that the lead bankers might order Mr Trump to conserve his scarce cash by withholding a $30m bond interest payment due in mid-June wrought havoc yesterday with Mr Trump's junk bonds.

The price of bonds issued to finance his recently opened $1bn Taj Mahal casino in Atlantic City tumbled while those of his other issues fell less steeply. In its first full month of operation the Taj Mahal has generated less revenue than the $1.3m a day it needs to break even.

In recent days Mr Trump has been locked in long meetings with representatives from his four main bank lenders, Citicorp, Chase Manhattan, Bankers Trust and Manufacturers Hanover.

The US banks, using normal lending principles, had already reduced their exposure to Mr Trump by syndicating their loans to foreign banks. British, French, German and Japanese institutions are believed to have participated.

Several recent attempts to raise cash appear to have failed. The much touted sale of his huge motor yacht for $110m has foundered and he has also failed to persuade lenders to remortgage the only two real estate properties – the Trump
Continued on Page 24

Toyota plans world output boost

By Kevin Done, Motor Industry Correspondent, in Derby, England

TOYOTA, the leading Japanese car maker, is planning to increase its worldwide vehicle production by nearly a third to 6m units a year by the late 1990s, Mr Eiji Toyoda, group chairman, disclosed yesterday.

Despite recent warnings from US and western European car makers about existing heavy overcapacity of more than 8m units a year in the world car industry, Toyota is stepping up its challenge in the 1990s to General Motors and Ford for leadership of the world motor industry.

Speaking at the ground-breaking ceremony for Toyota's first European car plant – a £700m ($1.1bn) facility with a 200,000 unit annual capacity to be built near Derby in central England – Mr Toyoda said the group was already close to achieving its initial target of capturing a 10 per cent share of total world vehicle sales.

Toyota is currently the world's third largest vehicle maker behind GM and Ford. Last year it produced 4.56m cars and commercial vehicles compared with worldwide vehicle factory sales of 6.34m by Ford and 7.9m by GM.

The US vehicle makers are coming under pressure from Japanese producers in their domestic market, where theJapanese already account for more than 25 per cent of car sales, and their challenge is also set to increase sharply in Europe this decade.

Mr Toyoda said that by the late 1990s, Toyota was planning to increase its domestic Japanese car and truck production to around 4.5m from 3.98m in 1989. The main thrust would be made overseas, however, where Toyota planned to increase production to around 1.5m a year from close to 800,000.

Its planned sales by the late 1990s would be divided equally between the domestic and overseas markets with 3m sales in Japan and 3m abroad.

Other Japanese car makers are also expanding their overseas production bases, with new car plants already under development by Toyota, Nissan and Honda in Europe.

London fights import rules on Japanese cars, Page 11

Eiji Toyoda: challenging GM

Administrators freeze deposits held at B&C's bank subsidiary

By David Owen and David Waller in London

THE newly appointed administrators of British & Commonwealth Holdings, the UK financial services group, said yesterday that £300m ($504m) of deposits with British & Commonwealth Merchant Bank had been frozen.

The Securities and Investments Board, which regulates the UK securities market, ordered investment firms on Friday to withdraw client money from the bank. The freeze will prevent that.

A leading clearing bank yesterday accused the board of undermining the willingness of the banks to lend to BCMB last week by issuing this directive.

The board said it decided to issue the notice only after it became clear the banks would not provide a £100m standby facility to BCMB. A number of other banks agreed with this version of the story yesterday.

Meanwhile, it emerged that the Bank of England, led by deputy governor Mr Eddie George, had made strenuous attempts to persuade the banks to provide the standby facility.

The Bank said that it was content for the matter to be resolved by creditor banks exercising their individual commercial judgments.

It is understood that the Bank is not intending to withdraw BCMB's banking licence, but it may prevent it from accepting new deposits.

It is thought that the board is now contemplating putting restrictions on financial institutions' ability to place client funds with their own in-house banks. Nearly half the deposits with the bank were client money placed there by other parts of B&C. The balance is said to be wholesale market deposits of up to £10m placed by European banks, UK corporations and high net worth individuals.

Mr John Gunn, B&C chief executive, said that he was "very sad" that B&C had been unable to "effect its restructuring plans as an independent company. It is very distressing that such a small minority can cause the group to be put in such a position where the best value may be more difficult to achieve. All at B&C are very willing to co-operate as fully as possible."

The administrators said BCMB depositors would rank as ordinary creditors adding that it was not clear how long deposits would remain frozen. They stressed that the bank remained solvent and assets exceeded liabilities by £90m.

The administrators said their intention was to rehabilitate the companies to which they had been appointed as going concerns.

In New York, Oppenheimer, B&C's US fund management subsidiary, announced plans for a management-led purchase of the business and all its operations. It said it had been working on a proposals, in conjunction with its investment adviser, Morgan Stanley, for some time, to the knowledge of B&C's advisers. It plans to make a specific proposal "in the very near future." Oppenheimer and its affiliates manage over 40 mutual funds with assets in excess of $14bn.

Editorial comment, Page 22; Lex, Page 24; Background, Page 25

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MARKETS

Washington defends its all-out trade offensive in Japan

Many Japanese were surprised when US ambassador Michael Armacost (left) said he regarded his job as that of America's "first commercial officer" in Japan. He has certainly been fulfilling that role.
Page 9

STERLING
New York close
$1.6805 (1.681)
London:
$1.6755 (1.6845)
DM2.8375 (2.8525)
FFr9.555 (9.6275)
SFr2.41 (2.4175)
Y255.75 (254.75)
£ Index 88.9 (89.1)

GOLD
New York: Comex Aug
$362.4 (363.5)
London:
$356.25 (362.75)

N SEA OIL (Argus)
Brent 15-day Jul
$16.25 (16.30)

Chief price changes yesterday: Page 25

DOLLAR
New York close
DM1.6877 (1.698)
FFr5.666 (5.729)
SFr1.432 (1.4375)
Y152.45 (151.95)
London:
DM1.6935 (1.693)
FFr5.7025 (5.715)
SFr1.4385 (1.4355)
Y152.60 (151.30)
$ index 67.9 (67.5)
Tokyo close: Y152.42

US closing rates
Fed Funds $8\frac{1}{4}$% ($8\frac{3}{16}$)
3-mo Treasury Bills:
yield: 7.944% (7.939)
Long Bond:
$103\frac{1}{2}$ ($103\frac{3}{32}$)
yield: 8.421% (8.441)

STOCK INDICES
FT-SE 100:
2,379.0 (+7.8)
FT Ordinary:
1,893.4 (+11.0)
FT-A All-Share:
1,169.47 (+0.4%)
FT-A World Index:

New York close
DJ Ind. Av.
2,909.40 (+2.43)
S&P Comp
367.40 (+4.24)
Tokyo: Nikkei
32,925.37 (+34.25)

LONDON MONEY
3-month Interbank:
closing $15\frac{3}{32}$% ($15\frac{1}{8}$)
Liffe long gilt future:
Sep $84\frac{13}{32}$ ($84\frac{1}{16}$)

EUROPEAN NEWS

A campaign of fear and food shortages

Judy Dempsey on the mud-slinging that has marred the first free elections in 45 years

MRS LYUDMILLA Atanasova is fed up. Every morning, she is out on the street by six o'clock queuing for milk. If she left it any later, the meagre supplies would be snapped up. She then queues for newspapers. But not for much longer.

"I am so disgusted, both with the food shortages and the terrible election campaign. I was very excited about the elections. But every time I read the newspapers, I just feel sick. The two main parties have turned the media and the campaign into a slanging match. I've had enough with all this petty bickering."

That in large part is the essence of this campaign as Bulgarians prepare to elect their first free parliament for more than 45 years.

The ruling Bulgarian Socialist (former communist) Party which is led by the uninspiring Mr Alexander Lilov who was dropped from the politburo by the former leader, Mr Todor Zhivkov in 1983, is confident it will win.

Few Bulgarians can give a rational explanation for this confidence except to say that the BSP has at its disposal a large communist party machinery which gives it a huge advantage over the opposition.

But there is another reason. The BSP never initiated a thorough reform or purge among its ranks. Old party functionaries still run the villages and small towns. This explains why peasants will not say publicly for whom they will vote. After four decades of repressive communist power, the fear has yet to disappear.

EASTERN EUROPE ELECTS

Bulgaria

Even the country's worst economic crisis for many years – for which the BSP must shoulder some responsibility – has not dented its confidence.

It is not just because the shops are bereft of the most basic items which annoys consumers. It is because the economy was so mismanaged under the former regime that it is only now that reliable statistics are coming to light.

For instance, industrial production has stagnated and actually contracted by 8 per cent during the first quarter of this year. "We are now witnessing economic stagflation," says Mr Ognan Pishev, an economic adviser of the Union of Democratic Forces, the largest of the opposition movements which groups together a motley collection of 16 parties.

Hard currency earnings are likely to drop as well because over the past few months the authorities have diverted exports to the domestic market. The Soviet Union, once an important market for Bulgarian tools and machinery, has cut back orders by 17 per cent. To cap it all, the $10bn owed to western financial institutions is equivalent to $1,500 for every man, woman and child.

Those wretched statistics, however, rarely figure in the election campaign.

Instead, the BSP says that it is fit to run the country because it overthrew the Zhivkov regime last November, has embarked on the reforms and because it has changed its name.

The new image has apparently obviated the need for the BSP to take the blame for the neglected infrastructure and the mistakes of the past. Indeed, it even refuses to bring to justice Mr Stojan Markov, Mr Stojan Ovcharov and Mr Ognian Doinov, the triumvirate who, under Mr Zhivkov, recklessly introduced measures which hampered economic growth.

It even hesitates to put Mr Zhivkov on trial. "Zhivkov said he will defend himself which means he could name names – that could touch those in the present BSP leadership," according to one prominent literary critic.

Despite this legacy, the BSP has tried to convince the workers and the large peasant population that the Union of Democratic Forces is not fit to rule.

"We never had the chance to participate in normal political life so our competence could never be proved," said Mr Zheljo Zhelev, chairman of the UDF.

Despite this, the UDF has made tactical errors in the campaign. It has allowed sections of the public to forget that Eco-Glasnost, the UDF's environmental "arm," was one of the country's first independent groups to raise the alarm over the appalling state of the environment. It was Podkrepa, led by Mr Constantin Trenchev, who in the late 1980s fought and was imprisoned for the defence of the workers.

These groups provided the nucleus of the opposition which in 1989 placed considerable international pressure on the Zhivkov regime for its continuing abuse of human rights and indirectly helped more reform-minded communists into toppling the ancien regime.

Today, the UDF struggles to keep its ungainly ship afloat. It has to contend with the anti-nationalist/anti-ethnic Turkish wing in the movement. It also has to contend with differences on how the economy should be tackled without causing undue hardship for the population.

It has, however, one main advantage over the BSP. Its main support comes from the younger generation, the intellectuals, and the large towns.

That energy and support could make the UDF into an effective parliamentary opposition.

Unless, of course, it took up the repeated offer by Mr Andrei Lukanov, the Prime Minster, to form a coalition with the BSP, even if the BSP happens to win the majority of seats in the new constituent assembly.

Sections of the UDF balk at the invitation. But Mr Lukanov, who is the mainstay and only beacon of the BSP, needs such talent and consensus if Bulgaria is to emerge from the long, dark shadow of the Zhivkov era into the democratic light.

Turkish Communists seek legality for their party

By Jim Bodgener in Ankara

LEADERS of Turkey's proscribed United Communist Party yesterday applied to have the party legalised. Their aim is to force the Government to hasten the abolition of articles in the penal code which outlaw Communist parties. The application will also test government commitment to political liberalisation. Communism has been banned in Turkey since the republic was founded in the 1920s.

An official application was filed in Ankara yesterday by Mr Haydar Kutlu and Mr Nihat Sargin, both of whom have recently been released from jail. They were arrested in November 1987 on their return from from self-imposed exile in western Europe. The two leaders still face trial under the penal code articles they are seeking to have abolished.

A Justice Ministry commission has recommended moderation of the articles, plus another which outlaws religious parties. Yet although the issue has frequently been before the cabinet, no action has been taken. President Turgut Ozal has repeatedly expressed nonchalance about lifting the bans, saying neither the Communists nor fundamentalists have significant popular support.

At a news conference yesterday, the UCP leaders said the party would fight for human rights in Turkey and open debate about the Kurdish question.

European security talks reopen today in Denmark

By Hilary Barnes in Copenhagen

THE MILITARY status of a united Germany is expected to be high on the agenda of Mr James Baker, the US Secretary of State, and Mr Eduard Shevardnadze, his Soviet counterpart, when they meet, together with other foreign ministers, at the 35-nation Conference on Security and Co-operation in Europe (CSCE) which meets here today.

However, the month-long meeting will deal principally with human rights issues and will aim to draw up rules for protecting ethnic minorities in Europe and guaranteeing the rule of law.

Ministers will be in the Danish capital for the opening session today and tomorrow. This will be the first opportunity for Mr Baker and Mr Shevardnadze to brief colleagues on last week's Washington summit between Presidents George Bush and Mikhail Gorbachev.

The latter's proposals in Washington for new European security arrangements could bring a CSCE summit to the centre of the international diplomatic scene over the next few months.

The human rights conference in Copenhagen is the first since the dramatic changes in eastern Europe over the past year. There is therefore considerable Danish optimism that important progress can be made towards a declaration of democratic rights and the rule of law, including the right to free elections.

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SION IN UKRAINE AND SIBERIA

orbachev faces strike threats

uentin Peel in Moscow

SIDENT Mikhail achev returns to the t Union today from his nit meeting in Washing- acing the threat of new s in two vital parts of his e, the Ukraine, and the as coalfield in western a.

itical strikes were called esterday in the Ukraine, Mr Vladimir Ivashko, the nunist Party leader, was d president of the repub- iew parliament.

vote was taken only more than 100 democratic nationalist deputies ed out of the Congress of ies in protest, and thou- of nationalist demonstra- gathered outside the par- nt building, chanting ns against the party leader.

Meanwhile, reports from the Kuzbas, the huge coalfield where last summer's mass miners' strike was launched, say that industrial and social tension is rising sharply because of worsening shortages of foodstuffs.

Mr Alexander Melnikov, the conservative Communist Party leader in the region, admitted in an interview yesterday that "the situation in the region may become really explosive if the Government does not take urgent measures to satisfy workers' demands."

He said there was a complete power vacuum in the region, and food supplies were being denied by the agricultural regions of the Russian republic. No meat was being delivered from Krasnodar, Voronezh, Lipetsk, Stavropol and Tambov, all traditional suppliers. The region was also short of pork, poultry and eggs because of inadequate supplies of fodder.

"No one really has power in the region," he told Pravda, the Communist Party newspaper. "The Soviets have been re-elected, but an executive arm still has not been formed. Re-elections are under way in the party organisations."

Mr Melnikov is regarded as a leading conservative in the ruling party, and he is under grave threat from the Union of Workers of the Kuzbas, based on the miners' strike committees of last summer. Candidates from the independent union swept the board in the last local elections.

In the Ukraine, Mr Ivashko is also seen as a conservative representative of the old party apparatus, although a more pragmatic one than the discredited former leader, Mr Vladimir Shcherbitsky.

His election, by 278 votes to 52, after 108 deputies walked out, was greeted by an instant strike call by a leader of Rukh, the Ukrainian nationalist movement.

"The results of this election were just a farce," said Mr Vyacheslav Chornovil, chairman of the Lvov regional council in Western Ukraine, now a nationalist stronghold. "It is time for the workers to show their strength. This is the time for strikes."

[oslems set their sights on Mecca

The Government is allowing up to 1,500 Moslems to go on the Hajj this year, writes Leyla Boulton. But there are 50m of them in the Soviet Union

MOSCOW babushka's white hair, yes and purple pensioner's scarf o clue that she was a Moslem, long- visit Mecca.

Alia Abdulovna Rizhenkova, a Tar- oslem, stood outside the Soviet capi- nly mosque last weekend demanding ght to travel on a pilgrimage to Saudi . "If I go to Mecca once, I will return and at peace," said the retired con- ion worker.

was surrounded by dozens of male ters from the far-flung regions of khan and Daghestan, who are in w this week to press their case for ited travel to Mecca.

are demanding our rights; maybe protest in the street, or even go on r strike, but we will solve this prob- mehow or another," said Mr Abbas ov, an engineering graduate from wn of Kizilyurt in Daghestan.

Soviet Government is allowing up 0 Moslems to travel to Mecca this s part of new freedoms under Presi- Mikhail Gorbachev's perestroika s. But it will not let more of its 50m ns go, saying it cannot afford the currency to pay for their food and modation in Saudi Arabia.

150-strong protest delegation wants a meeting with Mr Boris Yeltsin, the hugely popular Russian president. It also plans to lobby the parliament of the Russian Federation, the Soviet Union's largest constituent republic, which extends to Astrakhan and Daghestan.

It is the duty of any Moslem who is in good health and can afford it to go on the Hajj (pilgrimage) – which lasts about 10 days every July – at least once in a lifetime.

"Perestroika has given us possibilities, but the periphery of the Soviet Union is in a very bad situation," said Mr Kebedov, a co-founder of a new Islamic Revival party. The embryonic party, which has called a founding congress for June 9-10 in Astrakhan, aims to promote Moslem rights, including travel to Mecca, and the freedom to publish religious material unhindered.

As part of a campaign to suppress Islam, Stalin in 1935 banned pilgrims from going to Mecca, and in recent years only 15 hand-picked Moslems a year were allowed to go.

According to an Islamic quota system of 1,000 pilgrims per million Moslems, the Soviet Union is entitled to send up to 50,000 pilgrims to Mecca. "A trip to Cuba costs Rbs1,500 and they are asking us for Rbs11,000 to go to Mecca," says Mr Kebedov. "The Dynamo soccer team is allowed to have 600 supporters travel with it, while only 1,000 Moslems are allowed to carry out their holy duty."

The spiritual leader in charge of the Moscow mosque, Imam Ravil Gainutdin, said he had asked for an increase in numbers but understood the Government's shortage of hard currency.

"I have been to Mecca and I know the conditions there. We can't let our people beg or sleep on the streets like African Moslems," he said, revealing a flashy gold watch as he waves his hand in the air.

The protesters outside his mosque, however, dismissed official concerns about their well-being as a sham. "What business is it of theirs, why such concern? If they open the borders, we can go by car or on foot and take our own food. We don't need anybody to worry about us," exclaimed Mrs Rizhenkova.

lian referendums on hunting nullified by low turnout

RITIES in favour of r restrictions on hunting e use of pesticides in d referendums in Italy een nullified by absten- over half the electorate John Wyles in Rome.

This is the first time that the results of Italian referendums will have fallen for the lack of an adequate turnout, and the setback could well deter pressure groups in future from seeking to use them.

Environmentalists were last night deploring successful pro-abstention campaigns by the hunting and agricultural lobbies as damaging to democracy, while many party politicians were privately content at the collapse of a mechanism which most regard as an unwelcome source of pressure on parliamentary prerogatives.

Preliminary figures suggested that some 43.3 per cent of the electorate voted.

Michnik: in the way

Walesa falls out with Solidarity newspaper

By Christopher Bobinski in Warsaw

MR LECH WALESA, the leader of Solidarity, has withdrawn his support for Gazeta Wyborcza, a leading newspaper set up last year to promote the movement's candidates before national elections.

The move comes as Mr Walesa continues his drive towards winning the country's presidency, and he evidently sees the Gazeta Wyborcza and Mr Adam Michnik, its editor, as an obstacle.

The message from Gdansk yesterday indicated that the Solidarity leader had stopped short of sacking Mr Michnik, which had been his original intention.

On Friday Mr Walesa dropped another long-standing supporter, Mr Henryk Wujec, from the key post of secretary to the Civic Committees, which have fought national and local elections for Solidarity.

Yesterday the Gazeta Wyborcza commented that Mr Wujec had been an ally of Mr Walesa's since the 1970s but that he had "not supported his candidacy for President".

The way Mr Wujec had been dismissed, the paper added, "would have been in place in a monarchy, and an absolute one at that".

The newspaper is owned by a journalists' collective and Mr Walesa, who had told aides at the weekend to write to Mr Michnik asking for his resignation, evidently decided that the move would be resisted.

Dangerous line to travel

Patrick Blum analyses Portugal's poor safety record on both the railway and road networks

A train crash in Lisbon last week which left two dead and more than 350 passengers injured is a sad reminder of Portugal's poor safety record on railways and roads.

On both accounts Portugal has one of the worst records in Europe. Independent research published a year ago showed that the country had the third largest number of derailments and train collisions in the European Community, with the second highest proportion of fatal accidents after Ireland.

The situation on the roads is no better. Bad roads, drunkenness, old vehicles and poor driving produce the worst road accident rate in Europe, well ahead of Greece and Spain.

Last week's rail accident between two trains serving the congested and overworked commuter lines between Sintra, Cacem and Lisbon is the latest of several disasters, the worst being in 1985 at Alcafache, in the interior, in which 54 people died and more than 130 were injured.

In last week's accident, one train rammed into another that was stationary outside a small side station at 8.45am at the height of the rush hour. An inquiry was immediately launched by the authorities amid conflicting claims over the probable technical or human causes for the accident, but whatever the final conclusion of the inquiry it will do little to reassure commuters.

In recent years there have been many accidents, including derailments on the services in and around Lisbon, as well as warnings by professional groups that conditions were becoming increasingly dangerous.

Since the main Sintra line was electrified in 1957, the number of people commuting into the capital has risen dramatically: more than 250,000 people use the Sintra-Lisbon services every day, many in appalling conditions.

Repeated cancellations, delays and recurring strikes have on occasion caused commuters to revolt with passengers stepping on to the lines to block all traffic in protest.

At the beginning of May, a newly formed commuters association started collecting signatures for a petition to President Mario Soares to draw attention to the "chaotic conditions" on the suburban lines.

Investment on these popular lines has taken second place to that on more prestigious intercity routes such as the smart, air-conditioned Alfa express train linking Lisbon and Oporto. A national railways modernisation plan foresees investments of Esc225bn ($1.5bn) for the period 1988-1994, but much of that will be on the main intercity lines. Investment this year will be about Esc80bn ($530m).

AFTER last week's accident, government and railways officials said that plans to modernise Lisbon region services will be speeded up. Trains will have more carriages, stations will be modernised and safety will be improved with the introduction of automatic speed controls on the lines.

Travel on the roads can be equally dangerous, despite large investment. A study made in 1988 by the European Transport Ministers conference shows that Portugal had 1,071 fatal road accidents per 1m vehicles, almost four times the rate in West Germany with 309 fatalities, twice that of Spain with 612, and higher than Greece – the second highest in the EC – with 810. In Europe, only Yugoslavia had a worse record. According to insurance statistics the frequency of road accidents which had fallen between 1980 and 1986 has been rising again.

THE Government is aware of the problem, and has spent heavily with the help of EC funds in new roads and road improvements on links between the towns of the interior and along the coastal strip, but much more needs to be done.

The Government is spending about Esc120bn a year on transport infrastructure, roughly 60 per cent of which goes on roads, but improving infrastructure alone will not solve the problem. Unsafe cars that would not be allowed on British, West German or French roads, are ignored by the police.

But cultural attitudes and driving habits also need to change. The Government is introducing tougher penalties for drunk driving, but except when there has been an accident there are practically no checks on drivers' alcohol levels.

The teaching of driving is poor, and it is popular folklore that until quite recently a driving licence could be obtained with a small payment. Meanwhile, young and old drivers take extraordinary risks. Wearing seat belts is not compulsory in the towns and is considered eccentric. There is still much machismo at the wheel.

ROAD CASUALTIES

Country	Pop. per km²	Veh. per 1,000 pop.	Deaths per 1m pop.	Deaths per 1m veh.
W Germany	246	473	146	309
Spain	77	298	181	612
France	101	451	217	482
UK	236	384	89	272
Italy	190	425	132	311
Netherlands	352	371	105	282
Portugal	108	246	264	1,071
Sweden	17	417	101	241
USA	26	730	190	261
Japan	322	413	100	241

Source: 'L'Assurance Française' and European Transport Ministers' Conference, 1988

Bush managerial style brings modest success

Peter Riddell reviews a US-Soviet summit which lacked the usual political theatre

PRESIDENT George Bush takes a managerial approach to his job. He is the chief executive officer presiding over a mature international group rather than a dashing entrepreneur full of new ideas.

Some US commentators have regarded the Bush/Gorbachev meeting as a disappointment. But that is to misunderstand Mr Bush's style and the changed operation of international diplomacy.

Mr Bush treated his talks as a managerial occasion rather than a grand theatrical event full of drama. It was a time to complete some major issues set in train at Malta six months ago, to give a fresh push to others to be resolved later this year and to advance, though not conclude, broader political questions.

The Washington talks were part of a continuing process rather than some special, one-off event. It is perhaps time to drop the word summit since this implies an unusual, rarely-scaled peak. It is not that talks between the US and Soviet presidents have become irrelevant. They still matter. The two countries – especially the US – continue to have a wider involvement than any others in the world, if no longer a deciding voice.

What has changed is the frequency of international contact. The future security of Europe is not going to be decided in some Congress of Vienna or Versailles conference, but rather by a whole series of discussions, of which the Washington talks were merely one, important episode.

The mayor of San Francisco, Mr Art Agnos, left, presenting President Gorbachev with the freedom of the city yesterday

Mr James Baker, the US Secretary of State, and Mr Eduard Shevardnadze, the Soviet Foreign Minister, will barely have said goodbye in Washington before they see each other again today in Copenhagen at a human rights meeting of the 35-nation Conference on Security and Co-operation in Europe (CSCE). They will meet again later this month under the umbrella of the "two-plus-four" talks on the external aspects of German unification. In both cases Mr Hans-Dietrich Genscher, the West German Foreign Minister, will be closely involved.

Judged by this standard the Washington meetings were a modest success. They provided a focus for the signing of 14 agreements and 11 joint statements, some long stalled during the 1980s, such as the nuclear testing accord. The treaty virtually eliminating both sides' stockpiles of chemical weapons would have been regarded as a major breakthrough at any other time, while the trade treaty and the maritime and airline agreements open the way for substantially increased commercial contacts.

The talks also injected renewed momentum into the aim of completing by the end of this year treaties to reduce both strategic nuclear arms and conventional forces. There are still major hurdles, but they are not insurmountable.

There were no breakthroughs on Lithuania and the future security of Europe after German unification. And there are some fears in Washington about the danger of a protracted period of stalemate and uncertainty if Mr Gorbachev's domestic political position is too weak for him to make concessions.

But there seems to have been some movement forward. President Bush put forward a nine-point package (agreed with the Bonn government) of reassurance about the future size of a unified German army, a more formal structure for the CSCE process, changes in Nato's role and West German-led economic aid for the Soviet Union.

The Soviets floated the idea of a political agreement between Nato and the Warsaw Pact, which Mr Baker said might ultimately help the Soviet Union accede to full membership of a unified Germany in Nato. He said this suggestion was "very vague", but was worth exploring – and will be discussed at the meeting of Nato foreign ministers in Scotland later this week.

This flavour of ideas being kicked around sums up the current stage. Some US officials were reassured by Mr Gorbachev's comment that he did not want to put spokes in the wheels of unification and by his support for synchronisation between the internal processes of unification and the external aspects.

President Bush yesterday reported to his Cabinet and said he had had a very positive response to the summit from Chancellor Kohl, Mrs Margaret Thatcher and other allied leaders with whom he had talked.

Yet much now depends on President Gorbachev and his room for political manoeuvre. Mr Bush has backed the Soviet leader and his reform programme – not least by signing a trade treaty despite congressional doubts. This is in the hope of winning support both for further arms control deals and for agreement on the future of Germany, "locking in" the Soviet Union while Mr Gorbachev is still in charge.

The Washington talks did not resolve these issues, but they did advance the debate over them, a further stage in the managerial process.

Gorbachev woos US investors

By Barbara Durr in Minneapolis

SOVIET President Mikhail Gorbachev, meeting in Minneapolis with the chief executives of more than 100 of the largest companies in the US, urged increased investment in his country. "The potential for collaboration is enormous," he said.

In an apparent effort to calm potential and actual US investors Mr Gorbachev explained at length that the current instability of his country was the result of its difficulties in making a shift to a more market-oriented economy.

Mr Gorbachev's much-heralded visit to a local farm was cancelled because of bad weather and he thus concentrated on the American business community.

He met with key representatives of General Motors, Ford, Chrysler, IBM, Coca-Cola, American Express, Westinghouse, 3M and Cargill.

Mr Gorbachev specifically pointed to Soviet interest in investment in computer technology, cars, fibre optics, telephone systems, food processing, rail transport and conversion of weapons factories. Companies that invested now during the country's hard times would be rewarded, he said, while "those who stand on the sidelines will remain observers for years to come. We'll make sure that is so."

Pressure mounts on Mulroney over Meech Lake

By Bernard Simon in Toronto

CANADA'S Prime Minister, Mr Brian Mulroney, yesterday tried to nudge the leaders of the country's 10 provinces towards a settlement of the constitutional deadlock which is threatening national economic and political stability.

Having given the premiers an opportunity to air their views at a five-hour dinner on Sunday evening, Mr Mulroney convened another private meeting yesterday at which specific proposals were to be discussed for salvaging the Meech Lake accord, the constitutional agreement which recognises Quebec as a "distinct society".

The accord, which has become the focal point of tensions between English and French Canadians, must be ratified by all 10 provinces before June 23. Approval is still required from three dissident provinces – Manitoba, New Brunswick and Newfoundland.

If the latest meeting shows signs of progress, the federal government is expected to convene a fully-fledged constitutional conference.

In the absence of a breakthrough, however, some observers have suggested that Mr Mulroney may step up pressure on the three provinces by calling off the talks. Such a move would unleash a new wave of uncertainty in financial markets, bolstering the argument that passage of the accord is vital to Canada's economic well-being.

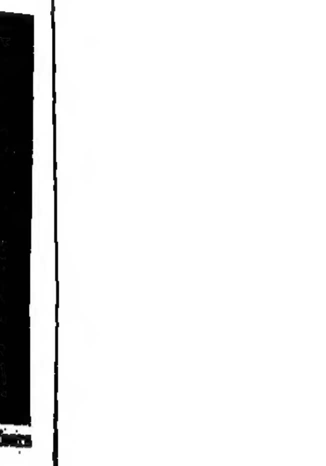
At Sunday's dinner, held in the imposing Museum of Civilisation across the river from the Houses of Parliament in Ottawa, Mr Mulroney is reported to have started proceedings by spelling out the economic damage which could be triggered by a collapse of Meech Lake. The possible consequences include a run on the Canadian dollar, higher domestic interest rates and skittishness among long-term investors.

The two main sticking points over Meech Lake are the legal status of a provision allowing Quebec to "preserve and promote" its unique position in Canada; and an effort by Manitoba and Newfoundland to link the accord to reform of the Senate, a long-treasured goal of provinces in western and Atlantic Canada to gain more clout in the federal government.

Quebec has insisted that Meech Lake be passed in the same form that it was unanimously adopted by the premiers three years ago. But the hold-out provinces, which have elected new governments since then, are demanding changes in the accord, or at least, a watertight promise of later changes.

In particular, they are unhappy with the provision giving any province a veto over future constitutional reforms. This has raised fears that changes in the composition and powers of the Senate would in practice be impossible to achieve.

Senate reform would entail transforming an appointed, largely powerless chamber similar to Britain's House of Lords, into a more powerful body along the lines of the US Senate with equal representation from each province.



Mulroney: spelled out his fears

Argentina reopens old wound of the 'dirty war'

By Gary Mead in Buenos Aires

ARGENTINA'S military, in seeking to justify its activities during the "dirty war" of the 1970s, is directly challenging the authority of the democratically elected civilian government.

General Felix Martin Bonnet, the army chief-of-staff, twice last week sought to justify the armed forces' role during the late 1970s, when at least 9,000 people disappeared and thousands more were tortured in clandestine, military-run jails.

Gen Bonnet also suggested that the army would resist attempts to draw it into a growing campaign, backed by the Government and supported by Washington, against illegal drug trafficking in Argentina.

The general, who was appointed army chief-of-staff by President Carlos Menem, himself head of the armed forces, is facing stiff opposition within the army over the Government's proposal, championed by Vice-President Eduardo Duhalde, to convert the force from its current role of preparedness to defend Argentina against internal and external threats into an anti-drug task force.

The army's top staff are under pressure from the lower ranks to force the Government into public vindication of the military's activities during the "dirty war". Last week ex-General Luciano Benjamin Menendez said that President Carlos Menem's October 1989 pardon of so-called "dirty war" officers was "gratitude for having beaten marxist subversion, and not a pacificatory gesture".

Mr Menendez, jailed for almost 50 murders allegedly carried out during the late 1970s, was a beneficiary of the pardon.

President Menem has promised to free the handful of senior officers still in prison, as well as former Montonero guerrilla leader, Mario Firmenich, by December. Last week, Gen Bonnet said December's second stage of the pardon would be a recognition of the armed forces' efforts against subversion. Mr Duhalde moved rapidly to contradict Gen Bonnet's statement, saying that "the pardon is an exemption from punishment and not a justification of the crime carrying that punishment".

At the weekend Gen Bonnet returned to the fray, saying that only a recognition of the armed forces' role in the dirty war "will shield the republic from greater evils, and will give their due place to those who gave everything for the Motherland".

Nicaraguans seeking $350m emergency aid at Rome donor meeting

By Tim Coone in Managua

GOVERNMENTS around the world will be asked to dig into their treasuries for Nicaragua tomorrow at a two-day donors' conference in Rome.

Nicaragua is seeking a total of $350m (£208.8m) in immediate economic assistance to finance an emergency programme to revive the war-shattered economy. A further $300m will be requested at a second conference towards the end of the year.

The new US-backed Government promises radical reforms to the economy including wide-ranging privatisation of state-run industries and farms, the return of private banking, tax reform and the country's "firm decision to normalise its external financial relations".

According to a government document to be presented to the Rome conference, Nicaragua's foreign debt now stands at $9.74bn, "equivalent to 30 times its annual exports and four times its GDP".

Commercial bank debt stands at $1.8bn.

The document says that IMF assistance will be sought and that "terms for an IMF-supervised adjustment programme will be established before the end of the year".

The US Congress recently approved a $300m economic assistance package for Nicaragua, the first $60m of which began to arrive last week. The new Government, however, estimates total external financing needs for 1990 – to stabilise the economy and to rapidly boost export output – at $906m, with further needs of $582m in 1991.

At a similar donors' conference in Stockholm last year, only $50m was raised out of a requested $250m.

Foreign diplomats in Managua are equally pessimistic over the prospects of the Rome conference.

"Some modest help will be given but most foreign aid is going east now. Nicaragua is seen as a US problem," said one European ambassador. Mr Enrique Dreyfus, the new Foreign Minister, has been non-committal over Nicaraguan intentions regarding litigation in the International Court of Justice against the US, which was initiated by the former Sandinista government.

Under a 1986 ruling of the UN court based in the Hague, the US is "under an obligation to make reparations to Nicaragua for certain breaches of international obligations".

The former government had lodged a claim of $12bn against Washington for losses and damages incurred as a result of direct US support for the war in Nicaragua, which lasted nearly nine years.

■ Italy and Venezuela signed an agreement yesterday under which Italy plans to invest up to $1.1bn in technological and scientific projects in Venezuela over the next three years, Reuter reports from Rome. The Venezuelan President, Mr Carlos Andrés Pérez, signed the pact during a two-day visit.

Search for jurors at start of Washington mayor's trial

A GRIM-looking Mayor Marion Barry of Washington DC, accompanied by his wife and mother, appeared for the start of his trial on cocaine charges yesterday, a criminal case peppered with sex, drugs and lies, Reuter reports from Washington.

A big challenge confronting both defence and prosecution is to find an unbiased jury to try the flamboyant city leader, who is in his 12th year in office and whose exploits have been the subject of intense publicity.

US Federal Judge Thomas Jackson barred reporters and the public from the opening session while he read a statement to prospective jurors who also filled in questionnaires to determine their impartiality.

The normally confident Mr Barry, 54, one of the best known black mayors in America, looked unusually serious as he waved to several dozen photographers while stepping from his limousine.

He faces 14 charges of cocaine use, perjury and conspiracy involving cocaine dating back to 1984, counts carrying a maximum 26 years in prison and a $1.25m (£740,000) dollar fine if convicted on all changes.

He has proclaimed his innocence and charges that the federal Government trapped him up by luring him to a hotel room on January 18 where they videotaped him allegedly smoking powerful crack cocaine.

It is expected to take at least a week to find 12 people for a jury from an initial group of 250 prospective jurors.

Mr Barry has been considering running for a fourth four-year term despite his problems and opinion polls show he has a fighting chance against other challengers in a September primary poll.

After his arrest, Mr Barry stepped aside from office temporarily while he underwent treatment in Florida and Georgia for admitted alcoholism and addiction to prescription tranquilliser drugs.

OBITUARY

Robert Noyce: 'Mr Semiconductor'

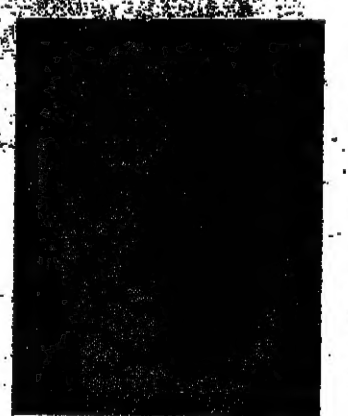
THEY called him "Mr Semiconductor" and the "Mayor of Silicon Valley". Dr Robert Noyce, co-inventor of the semiconductor chip, died suddenly on Sunday morning at his home in Austin, Texas. He was 62.

Dr Noyce played a pivotal role in creating the semiconductor industry, which provides the building blocks upon which the vast computer and electronics industries depend.

His invention of the "planar process" made possible the manufacture of the first commercial semiconductor chips in the late 1950s. He went on to become the model for Silicon Valley's famed entrepreneurial spirit, co-founding Fairchild Semiconductor, the first commercial chip maker, and later Intel, which is today the leading US manufacturer of microprocessor chips, the devices that power personal computers.

Of his achievements, Dr Noyce said two years ago: "I'm amazed at how much change we've wrought in the world in the last 20 years. You don't always realise it when you're in the midst of it. It's like climbing a mountain. It's only when you get to the top and look down that you say, 'Wow, that was a long way we climbed up!'"

It was indeed a high mountain that Mr Noyce and his colleagues scaled in founding the semiconductor industry. Electronics now represents the largest manufacturing industry in the world and all of it depends upon the ubiquitous semiconductor chip. Honoured over the years with dozens of national and international awards, Bob Noyce graciously used every opportunity to further the cause which was to the end his life's mission.



Noyce: championed industry

He fervently believed that it was in the best interests of the people of the US to maintain world leadership in semiconductor technology. As chief executive of Sematech, the US semiconductor industry's research consortium, a role he took on in 1988, Bob Noyce dedicated himself to "provide the US industry the domestic capability for world leadership in semiconductor manufacturing" by fostering collaboration within the industry and with government.

"Sematech is a good example of Bob's character. Two years ago, the industry and the government urged him to take on leadership of Sematech. He answered the call out of a sense of responsibility to the nation, and met the challenge of getting the Sematech effort rolling," said Mr Gordon Moore, chairman of Intel and a long time colleague.

Over recent years Dr Noyce, who was never without a Marlboro cigarette, was a frequent visitor to Washington, testifying before congressional committees and meeting privately with administration officials to argue the semiconductor industry's cause.

He advocated tough action on trade disputes with Japan, federal support of consortia such as Sematech, and government attention to the depletion of the "infrastructure" of US semiconductor production equipment and materials companies, which have recently become the frequent targets of foreign takeovers.

In an interview just 10 days before his death, Dr Noyce enthusiastically described the achievements of Sematech. The consortium, he said, had created a new collaborative environment in the US semiconductor industry where equipment suppliers and semiconductor chip makers share information, openly discuss problems and put aside their competitive instincts in favour of co-operation on issues of basic research.

Sematech has been controversial. It is seen by some as the first step toward a US "industrial policy". Dr Noyce had come to represent his industry's call for government intervention to prevent the decline of US international competitiveness.

With his death, the US semiconductor industry has lost its most able champion in Washington at a time when it is more vulnerable than ever before to foreign competition and when administration enthusiasm for intervention is at an all-time low.

A successor will no doubt be found to take up Dr Noyce's position at Sematech, "but nobody will ever replace Bob Noyce," said Mr Andrew Grove, president of Intel.

Among his colleagues, Bob Noyce will be best remembered for his selfless dedication to the semiconductor industry. "He threw ideas at other people and let them develop them. He never stepped in front, though he had the right to do so," said Mr Grove, who himself took on day-to-day leadership at Intel from its founders.

Others described Dr Noyce as an inspiration, and a hero. He was a role model for a generation of industry entrepreneurs who have founded some of the most successful companies in the US electronics industry.

Robert Noyce will be remembered by many more for his charm and his ability to debate sharply without ever seeming pompous.

Louise Kehoe

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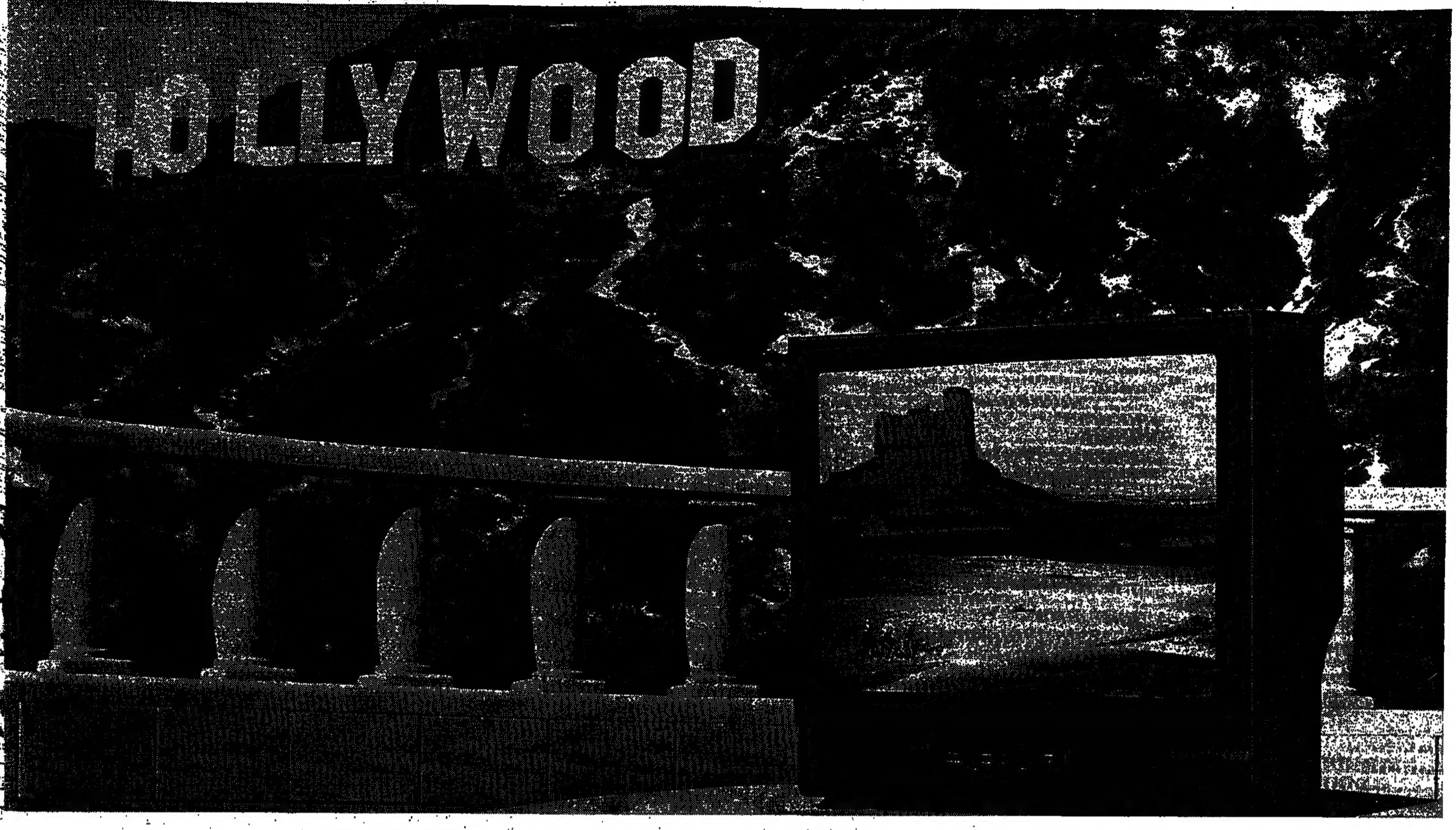

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Chinese troops sing a patriotic song as they march through Tiananmen Square yesterday

Students keep alive spirit of Tiananmen protest

By Peter Ellingsen in Peking and John Elliott in Hong Kong

STUDENTS at Peking University defied police in a second night of protests yesterday by flinging bottles out of dormitory windows on the anniversary of last year's military crackdown on China's democracy movement.

Security forces armed with sub-machineguns evicted foreign reporters from the area and sealed off the campus district in north Peking with road blocks. Witnesses said police had beaten a Chinese man outside Peking University, wielding rifle butts as he lay writhing on the ground.

A foreigner was punched in the stomach by an armed policeman just outside one of the university gates.

Shortly before midnight students started throwing bottles out of their dormitories, an act of political defiance aimed at senior leader Deng Xiaoping whose last name in Chinese rhymes with "little bottle". Shouts and whistles greeted the sound of smashing glass.

Earlier, a senior US diplomat complained to the Chinese foreign ministry about assaults on American reporters who were covering the protests.

In Hong Kong, which passes to Chinese sovereignty in 1997 but cannot be silenced by Peking until then, about 100,000 people staged their second remembrance ceremony in two days with a three-hour, candle-light vigil in the colony's Victoria Park.

"Those who died a year ago today did not do so in vain because they will be remembered in China, and the overseas Chinese will take up the struggle," said Mr Seto Wah, chairman of Hong Kong's democracy alliance.

The sentiments were the same at Peking University. Despite attempts by officials to intervene, calls were made earlier yesterday for greater democracy and an end to the dictatorial policies of the Communist Party in demonstrations on the heavily guarded campus where last year's massive pro-democracy movement began.

Despite the overbearing surveillance, students managed subtly to express their feelings. In the university's central triangle, loudspeakers broadcast a song by Police, the UK pop band, which repeats the line, "Every step you take, every breath you make, I'll be watching you."

The Government's only official response to the events was a long editorial in the People's Daily which called for "stability above everything else". Authorities had been "absolutely correct" in crushing the uprising last year, the mouthpiece of the party said, China's fate was hanging in the balance, and there was "no choice but resolutely to quell the rebellion".

In Hong Kong the mood at last night's vigil was the same as on Sunday when more than 100,000 people marched through the centre of the colony. There was quiet mourning and a determination to maintain the spirit of Tiananmen Square and of last year's solidarity demonstrations in Hong Kong, the largest the colony has ever experienced.

Despite the protests, the colony's stock market hit its highest point since May last year, with the local Hang Seng index briefly touching 3,200.

The stock market climbed slowly last week to a series of post-Tiananmen Square highs as buyers were encouraged by what were seen as conciliatory words from Peking before the anniversary.

Yesterday, the index was almost back to the 3,309 level of mid-May last year when it was first hit by China's upheavals. On June 5 last year, the market crashed by 27 per cent to 2,093. Last night it fell back to close at 3,153.22

Taiwan's share prices fall sharply

By Peter Wickenden in Taipei

A PREDICTED technical correction turned into a panic sell-off yesterday, driving Taiwan's volatile stockmarket down 509 points, or 6.4 per cent, to 7348.

After falling nearly 50 per cent from a February peak, the composite index last week increased by 24.66 per cent over five three-hour sessions, its largest recorded weekly advance.

New records for volume of shares traded were set on several days last week, and average daily turnover shot up by nearly 100 per cent to $4.5bn.

The recovery brought many small investors back into play and stemmed the massive capital outflow that Taiwan has seen since early this year. More than T$10bn (£215m) flowed out of foreign currency accounts and offshore funds and back into the stockmarket last week alone, easing recent pressure for the Taiwan dollar to depreciate further, said foreign exchange dealers.

Mr Wang Chien-hsien, the new Finance Minister, hopes to end short-term speculation on the stock market. But he is now faced with instability and speculation in both the stock and foreign exchange markets as idle funds slosh from one to the other.

Last Tuesday the Central Bank ceased its daily announcements of overbought and oversold positions on the foreign exchange market, and also began posting the T$/US$ exchange rate after every change instead of every five minutes in order to dampen speculation.

To combat an economic slowdown, the Central Bank also cancelled a requirement that local banks redeposit half of their certificates of deposit in the central bank on maturity.

This is expected to bring a drop in interest rates and release $11bn into the system by the end of the year. Analysts said, however, that the easing of credit restrictions will not bring a new boom to the stock market, as a double-digit drop in May exports has increased basically bearish sentiment.

Pakistan 'still short of IMF targets'

PAKISTAN'S economy has made substantial gains this year but is likely to fall short of targets set by the International Monetary Fund under an economic reform programme, Reuter reports from Islamabad.

The government economic survey, published yesterday ahead of Thursday's budget, estimates economic growth at 5.2 per cent for the year to June 30, 0.8 points below target but above last year's 4.8.

The current account deficit is set to decline from $1.93bn in 1988-89 to $1.7bn (£1bn) this year, but western diplomats said the Government would fail to meet a key target set by the IMF for reducing the budget deficit. "Three indicators are short by a couple of percentage points, but Pakistan is doing reasonably well and the IMF will recommend that the programme should be continued," one said.

The survey, covering Prime Minister Benazir Bhutto's first full year in office, gave no budget deficit figure.

In return for $800m in IMF loans agreed shortly before Ms Bhutto took office in late 1988, Pakistan accepted a three-year programme to reduce the budget and payments deficits, bolster foreign reserves and reduce inflation.

Manufacturing has rebounded this year, growing by 7.9 per cent compared with 4 per cent in 1988-89, despite widespread ethnic and political troubles in southern Pakistan, where industry is concentrated.

Indian industrialists welcome easing of investment controls

By K.K. Sharma in New Delhi

INDIAN industrialists have welcomed the new industrial policy announced by the Government last week, mainly because the substantial abolition of controls and regulations removes bureaucratic delays and encourages investment.

The policy deals, however, with small and medium-sized industries and to a limited extent with foreign investment. Decisions on two important issues, which were held in abeyance by the Indian cabinet when it approved the policy, are awaited.

These are investments by companies covered by the Monopolies and Restrictive Trade Practices (MRTP) and Foreign Exchange Regulation (FERA) Acts. These cover the so-called large "monopoly" industrial houses and foreign companies.

The deregulation of investment up to Rs 250m (£8.6m), and Rs 750m in "backward areas", does not affect these two groups of companies, as new investments by them will still require governmental approval.

So far as Indian companies are concerned, all the larger industrial houses will still need government approval for ordinary investment, although they can take advantage of incentives for investment in designated backward areas and companies committed to production for exports.

Foreign investment has been made easier if the equity holding in the company concerned is limited to 40 per cent. In that case, investment proposals will not require government scrutiny and will thus become "automatic".

Industrial associations acknowledge that after this substantial deregulation, about 65 per cent of investment proposals will no longer require government scrutiny and approval.

But the main demand by Indian industrialists and foreign companies is that they should be allowed a majority 51 per cent share. This is rarely allowed by the Government – except for high-technology and export-oriented industries – and a decision on this has been postponed.

Nevertheless, industrial associations acknowledge that a substantial degree of deregulation has been carried out and that about 65 per cent of investment proposals will no longer require government scrutiny and approval.

In addition to withdrawal of licensing regulations for investments up to Rs 25m, the main relaxation is that companies established in export-processing zones or those in the 100 per cent export category can start operations if their plants require less than Rs 75m investment.

These are permitted to sell up to 25 per cent of their output in India, thereby opening the large domestic market to their products. For this reason, investments in export-processing zones or units committed to exporting 75 per cent of their output are becoming increasingly attractive to foreign companies.

Since one of the main objectives of the liberalisation is modernisation of industry, the new policy has made it easier for industrialists to import technology.

Technology collaboration agreements will no longer require governmental approval provided royalty payments do not exceed 5 per cent on sales in India and 8 per cent on exports.

The new policy also relaxes rules on imports of capital goods and raw materials. New units exempted from licensing requirements are entitled to import plant and machinery up to 30 per cent of the total. Imports of raw materials and components up to 30 per cent of annual production have also been permitted.

Substantial incentives have been announced for what are known as "small-scale" and "tiny" industries as well as agro-based industries. This is in line with the Government's belief that these are the main instruments for creating jobs.

Khmer Rouge chief misses start of talks

KHMER Rouge leader Khieu Samphan boycotted yesterday's opening session of Cambodian peace talks in the Japanese capital, further dimming hopes of a breakthrough in ending the 11-year civil war, Reuter reports from Tokyo.

Khieu Samphan, whose guerrilla faction controls the biggest army battling the Vietnamese-backed Phnom Penh Government, left his Tokyo hotel about two hours after the conference opened at a Japanese state guest house several miles away. He returned about two hours later, but declined to say where he had been.

The prime minister of the Phnom Penh administration, Hun Sen, has been insisting he will only deal with a single spokesman for the uneasy three-faction anti-government coalition, which is nominally headed by former monarch Prince Norodom Sihanouk.

Japan's Kyodo News Service said Khieu Samphan demanded at preliminary talks the same rights to speak at the meeting as Sihanouk and Hun Sen.

When his demand was rejected, the Khmer Rouge leader opted to boycott the meeting, Kyodo said. The Japanese Government was now trying to bring him to the negotiation table but prospects looked poor for the time being, the agency report added.

There had been hopes that the meeting, scheduled to last two days, would result in a ceasefire pact. In the absence of the Khmer Rouge, however, the chances were severely diminished.

"The Khmer Rouge always do this, raising hopes and then torpedoing them," said one frustrated Hun Sen aide outside the meeting room.

"No agreement would be effective without the Khmer Rouge, because they are very powerful militarily and politically, and have a lot of arms," another Phnom Penh official said.

The Phnom Penh Government has set as a crucial condition for any peace settlement a guarantee that the Peking-backed Khmer Rouge, blamed for the deaths of countless thousands of Cambodians during their 1975-79 rule, cannot return to unfettered power.

Japanese move quickly against CFCs

Eager to be good world citizens, companies leap into action, reports Michiyo Nakamoto

JAPANESE industry has often been a prime target of criticism from environmentalists. But the rapid, concerted response by Japanese companies to a worldwide move to abolish chlorofluorocarbons (CFCs) points to a growing awareness that it no longer pays to pollute.

Initially the influential Ministry of International Trade and Industry, reflecting the concerns of industry, dragged its feet in accepting the growing view in the west that the use of ozone-depleting CFCs should be abolished as soon as possible.

Over half the CFCs consumed in Japan are used as cleansing agents in the manufacturing process of semiconductors, and the type used, CFC 113, is particularly difficult to replace. The ministry was concerned that banning the use of CFCs before substitutes could be found would deal a heavy blow to the chip industry. The US and Europe use CFCs mostly in aerosols and as coolants, for which substitutes are easier to find.

Nevertheless, at last year's international conference on the environment in London, the Japanese authorities found themselves agreeing that the use of CFCs should be abolished within 10 years.

A government directive can go a long way in Japan. Within months of the trade ministry's statement that Japan would abide by the London proposal, all the top companies in industries that consume CFCs announced their own schedules for phasing out use of the chemicals. Several companies have adopted tighter schedules than the international agreement calls for.

The leading semiconductor and electronic equipment makers, for example, are aiming to abolish the use of CFCs by the mid-1990s, several years ahead of the year 2000 agreed at the London conference. Before restrictions were put into effect, Japan accounted for about 40 per cent of the world's consumption of CFC 113.

Seiko Epson, the computer printer maker, has launched perhaps the most ambitious plan, aiming to eliminate CFCs from its manufacturing process by 1993. The company already succeeded last year in reducing its CFC use by half, from 1,400 tonnes in 1988 to 700 tonnes. This year it hopes to halve the amount again, to 350 tonnes.

Since no single satisfactory substitute has been found for CFC 113, manufacturers have had to adopt expensive replacements, such as ultra-pure water, which requires highly sophisticated drying equipment, or to reassess their entire production process and eliminate cleansing altogether.

Recycling is another interim measure being used.

In many cases the companies admit that it is no easy task trying to reduce their use of CFCs so quickly. "Most companies are having a difficult time," Toshiba said.

Many Japanese companies have set up study groups to consider environmental issues and Toshiba has taken a step further by setting up an Environmental Engineering Laboratory with a staff of 60, devoted specifically to R&D in environmentally safe products and in technology for the disposal and recycling of industrial waste.

The expansion of Japanese companies outside their national borders brings them under closer scrutiny by environmentally concerned consumers in the west.

The growing influence of Japanese companies worldwide has also meant that they are increasingly expected to be more responsible members of the world community and can no longer afford to ignore an issue that has taken on such international proportions.

INTERNATIONAL NEWS

Israel refuses to restrict Soviet migrants

Nor does Gorbachev's threat perturb the US, write Hugh Carnegy and Peter Riddell

THE Israeli Government yesterday flatly refused to bar Jewish immigrants from the Soviet Union from settling in the occupied Arab territories, as demanded by President Mikhail Gorbachev in Washington on Sunday.

Noting that under Mr Gorbachev, the Soviet Union did not dictate to its citizens where to live, Mr Yitzhak Shamir, the Prime Minister, said: "It is as clear as daylight that we, who practise democracy and freedom, cannot accept or impose limitations on this or that category of citizens... And we won't establish ghettos and restricted areas in this country, not for immigrants and not for Israelis."

Mr Gorbachev suggested at a press conference after his summit meeting with President George Bush that Moscow might stem the flow of Jewish emigrants if Israel did not heed calls to stop any of them settling in the West Bank and Gaza Strip. His comments startled Israelis, who previously believed the Soviet Government would not risk jeopardising relations with the US and the West by such a step.

Once the initial surprise wore off, that interpretation was widely held still to be valid, especially as Washington has linked trade concessions for Moscow to more liberal emigration laws.

In Washington itself Mr Gorbachev's warning is not seen as a new or immediate threat, although, if implemented, it would have a far-reaching impact on bilateral relations.

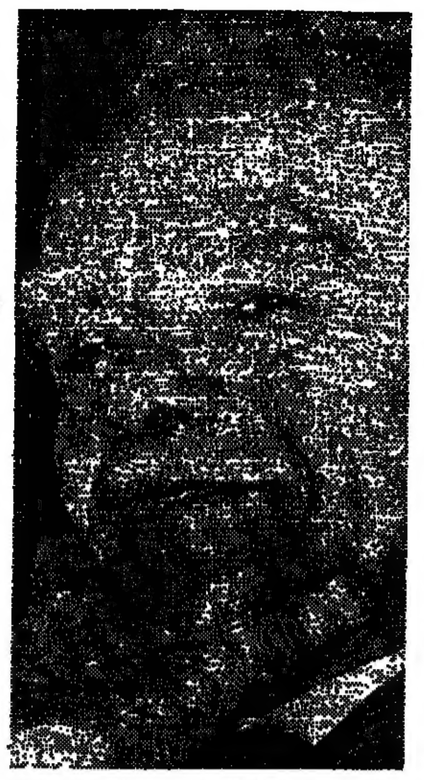
A suspension of emigration would almost certainly mean that the US Congress would block approval of the US-Soviet trade treaty signed last Friday and hence hold up granting of Most Favoured Nation trade status to Moscow.

Mr James Baker, the US Secretary of State, commented that the Soviet side had made similar warnings, most recently in discussions when he was in Moscow in mid-May. He noted that the US had a different position in "openly and unconditionally" supporting the concept of the emigration of Soviet Jews, while at the same time not supporting "the establishment or enhancement of settlements in the occupied territories". He said: "We haven't linked the two in the way that President Gorbachev was suggesting."

US officials noted the indirect way in which Mr Gorbachev phrased his warning, saying he had been "bombarded by criticism" from Arab governments and "some people" in the Soviet Union. The US view is that Mr Gorbachev's comments are more rhetorical than a fully-fledged threat. Indeed, Mr Gorbachev has recently talked of substantially increasing the number of Jews leaving the Soviet Union and easing emigration procedures and problems over flights.

Mr Brent Scowcroft, the President's National Security Adviser, noted that, "the Soviets are under enormous pressure from the Arab world. I'm presuming that this is a reaction to it on his part in hopes of getting the Israelis to restrict where immigrants will settle."

Mr Moshe Arens, the Israeli Foreign Minister, insists that the issue of Soviet Jews settling in the occupied territories is a red herring used to disguise a blanket Arab hostility to any Jewish immigration at all. Officials never tire of saying that of the tens of thousands of



Shamir: "We won't establish ghettos"

Soviet Jews to have arrived so far – as many as 250,000 may come this year – only a few hundred have gone to the territories (not including previously Arab areas of Jerusalem).

But the Israeli stance is also ambiguous. While saying that no immigrants are directly encouraged to settle across the "Green Line", the Government also says they are perfectly free to do so if they wish. Taken with the clear policy of Mr Shamir's Likud Party in favour of Jewish settlement of the territories, this position in Arab minds amounts to a positive intention to use the Soviet newcomers to displace the local Palestinian population.

A number of Israelis believe that the Government should take a clear stand against immigrants going to the occupied territories – if only to ensure that vital US help for the huge economic and social task of absorbing them is not put in jeopardy. Yesterday Mr Simcha Dinitz, chief of the Jewish Agency, which plays a leading role in settling the immigrants, stated as much.

He said the agency did not invest "one penny" in the territories, and nor should the Government. The priority, he said, was to bring in the maximum number of Jews. "Anything which might endanger that, even if it contradicts somebody's ideology, I would push aside now."

A shift in the Israeli position would not overcome one fundamental issue, however. When the international community – including the US – speaks of the occupied territories, it includes areas of Jerusalem also captured in 1967 and since annexed. But only a tiny minority of Israelis accept this. The vast majority regard Israeli sovereignty over the whole city as unchallengeable and, by the same token, support the settlement of many of the Soviet Jews in annexed suburbs.

PLO seeks Arab stand against US

By Lamis Andoni in Amman

THE Palestine Liberation Organisation's leadership is expected to hold an emergency meeting in Baghdad within 24 hours to demand "a firm Arab unified position towards Washington" amid increasing calls in the Arab press to boycott US goods.

The crisis threatens to end a 17-month dialogue between Washington and the PLO, and follows an abortive beach attack by a radical Palestinian faction last week.

PLO officials said the leadership would request that commitments made during an extraordinary Arab summit in Baghdad last week be implemented. The summit, which blamed the US for Israeli policies "of aggression and expansion", committed Arab states to endorsing firm measures against any country which conducted hostile policies towards the national rights of Palestinians.

PLO officials claim the US expressed such policies by vetoing a Security Council resolution to send a three-member investigation committee to Israel's occupied territories. The PLO is seeking a mechanism to provide protection for Palestinians under Israeli occupation pending a settlement.

Shamir to form narrow coalition without Labour

Hugh Carnegy in Jerusalem

key issue of the occupied territories than his own Likud. Mr Shamir knows that such an administration would come under severe external pressure, including from the US and even American Jewish groups, at a time of rising tensions in the Middle East and its razor thin majority would make it vulnerable at home.

He has made little secret of his preference for another Likud-Labour union which would be subject to less pressure and could concentrate on the urgent task of absorbing the flood of Soviet Jewish immigrants. Yesterday Mr Shamir took care to leave the door open to another broad coalition: "I don't rule out any option until I present the government to parliament."

But his hand has been forced partly by continued deep differences with Labour over Likud's refusal to accept US terms for peace talks with the Palestinians (the issue on which they split), and partly by strong pressure from powerful figures within Likud, such as Mr Ariel Sharon, to go for a "narrow" government without Labour.

Paris to sign Saudi offset agreement

Davidson in Paris

tract which could be worth around FFr20bn ($3.5bn) depending on the options chosen, are expected to last another six to 12 months.

Today's agreement provides for Franco-Saudi industrial joint ventures, in which the French and Saudi partners would each provide 12.5 per cent of the investment capital in equity, while 50 per cent would be funded in 15-year soft loans by the Saudi Investment Development Fund.

Under the agreement, France will aim to promote investment projects offsetting 35 per cent of the frigate contract over 10 years, and including a high technological level.

G15 talks focus on debt

Siong Hoon in Kuala Lumpur

range of issues with international debt dominating the discussion. Neither the Brady Plan nor the Toronto Terms, which unlike the Brady Plan aims to provide partial debt relief, is completely satisfactory to the group.

Those initiatives, the group said in a statement, "need to be enhanced and broadened to embrace all categories of debtor nations and implemented more effectively."

Brazil, Mexico and Argentina are the largest debtors in the G15.

In total G15 members account for $600bn, or nearly half of the developing world's external debt of $1,300bn.

The statement said that the G15 is to convene a special body of financial experts representing each of the Heads of Government in an attempt to find "common approaches" to deal with the debt.

...of 15 developing nations external debt 1989

Country	$bn	Country	$bn
[illegible]	23	Mexico	103
[illegible]	62	Nigeria	31
[illegible]	113	Peru	20
[illegible]	40	Senegal	4
[illegible]	46	Venezuela	34
[illegible]	53	Yugoslavia	22
[illegible]	5	Zimbabwe	3
[illegible]	22		

WORLD TRADE NEWS

'P urges Brussels nd US to solve arm trade dispute

'eter Montagnon, World Trade Editor

'ISH Petroleum, the UK oil chemicals concern, has d the US and EC to reach npromise in their dispute world farm reform. This "essential" to the success e Uruguay Round of multi-'al trade liberalisation , BP said in a position r being sent to the govern-s of the main countries e it operates.

own success depended on nealth of the world econ- which in turn was based nhancement of the multi-al trading system, BP said.

is BP's second position r on the round, showing it ne of the few European inationals taking a direct est in the trade talks, and g a number of benefits it cts.

large part of the paper es on the need for farm m, which BP said would ove the business environ- for its nutrition and strial alcohol business. ralisation would cut the urplus of high-cost, high-bsidised agriculturally-uced alcohol which threat-the market for industrial ol. It would also remove ort for this product by tries such as Brazil, Saudi ia, Japan and the US.

m reform would broaden ources of raw material for al feeds and lower their s in the EC. Because of BP was opposed to the EC of re-balancing protection e farm sector by compen-g for lower export subsi-with increased import con-on feedstuffs.

urged the round to pro- an accord to liberalise in services with the t coverage. Noting it was a user and provider, espe- of shipping services, BP any accord should include cial services, transport telecommunications. e monopolies should be subjected to the agree-. The needs of developing ries should be recognised, his should not mean the term legitimisation of ng restrictions."

reement on improved cement of intellectual rty rights would ease the climate for investment and technology transfer, and help address the problem of trade in counterfeit goods. Losses to BP from counterfeiting could be £20m-£50m a year.

But an intellectual property accord should not include compulsory licensing of technology and know-how on non-commercial terms to developing countries, as this would discourage technology transfer.

BP had a special interest in multilateral cuts in tariffs on petrochemicals as part of the round. It was "strongly opposed" to bilateral tariff cuts on trade in these products between blocs such as the EC and the Gulf Co-operation Council countries, as these would distort trade on a world basis.

● The Uruguay Round should lead to "a firm, irreversible commitment" to phase out import quotas on textiles and clothing over five years, with UK producers given direct government aid, if need be, to help them adjust, the British Importers Confederation (BIC) said.

Launching a study on the effects of the quotas enshrined in the Multi-Fibre Arrangement, Mr John Faulkner, chairman of BIC's Textile Committee, said abolition would save British consumers £1.1bn, equal to 13 per cent of the price of clothing in high-street shops. The study, by Mr Alf Vanags of London University, says this would lead to the loss of up to 40,000 jobs. The savings to consumers and the job losses are slightly higher than the £980m and 33,000 jobs forecast in a separate report by Prof Aubrey Silberston of Imperial College.

The MFA, which had recently shown signs of becoming more restrictive, was an costly way of supporting the industry. More could be achieved at lower overall cost by a system of cost-effective aid, the BIC said.

The Multi-Fibre Arrangement: A review of the Evidence and the Prospects for reform, by Alf Vanags. British Importers Confederation, Rooms 309-315, 3rd Floor, Kemp House, 152-160 City Road, London EC1V 2NP.

Berne Union to approach Moscow on trade arrears

THE Berne Union, grouping 40 export credit insurance concerns from 33 countries, confirmed yesterday it would formally approach the Soviet Union over growing trade payment arrears, Peter Montagnon writes.

The decision, at the Union's annual meeting in Italy last week, follows concern at arrears on debt insured by members and the quality of Soviet payment guarantees. Insured arrears are thought to be only $200m (£125m)-$300m, a small part of total Soviet arrears, estimated in the West at up to $2bn, and now a matter of concern. Officials want to set up a better information flow on the quality of Soviet credit risks.

Usually, export credit agencies are loth to accept Soviet guarantees other than from its Bank for Foreign Economic Affairs, which has kept on servicing debts on time. They say they are increasingly asked to accept guarantees from the myriad decentralised foreign trade organisations that have followed economic reform. It is impossible to assess the worth of these guarantees. The Union aims to learn who is authorised to issue them, and impress on Moscow the need for guarantors to have a strong track record, to be eligible for Western insurance schemes.

Separately, the Union said exports insured by its members rose 29 per cent last year to $293bn, mainly due to extra short-term commercial risk insurance in developed countries. Growth continued in medium and long-term project risk insured in developing countries, accounting for some 20 per cent of member agencies' total business.

Claims paid rose marginally over 1988 to $12bn. Members with large medium and long-term exposures again showed a deficit on 1989 operations. Failure of some 40 countries to meet their commitments under debt rescheduling to one or more member agencies still caused worry. Members boosted their investment insurance activity. New direct investments underwritten last year rose 10 per cent to $2.3bn, bringing total investment insurance exposure to $16.95bn.

US defends its trade offensive in Japan

Ian Rodger hears how bilateral talks may have improved chances for Gatt success

US AMBASSADORS enjoy special status in most of the world's capitals, but perhaps nowhere more than in Tokyo, where the US has maintained a pre-eminent position ever since General Douglas MacArthur arrived in 1945 to set up an occupation government.

For the most part, these envoys have used their influence gently, sometimes too gently.

The venerable Mr Mike Mansfield, who occupied the post for 11 years until last spring, was often criticised for devoting more effort to representing Japanese interests in Washington.

Thus, many Japanese officials were startled when Mr Michael Armacost, a career diplomat with extensive experience in Japan and other parts of Asia, announced bluntly during his confirmation hearings in Washington a year ago that he regarded his new job as that of the US' "first commercial officer" in Japan.

Since arriving in Tokyo, Mr Armacost has certainly fulfilled that role, making speeches to demand open markets and co-ordinating an unprecedented offensive by the Bush Administration aimed at changing Japan's trading behaviour.

The US anxiety about its trade deficit with Japan seems excessive to those who believe in a multilateral trade system, but Mr Armacost makes no apology for it. "It is very difficult to reduce our deficit with the world without addressing the Japan balance, which accounts for over 50 per cent of the total.

More seriously, critics say the US approach to its trade problems with Japan ignores Gatt multilateral procedures for dispute settlement and puts the US in the position of both judge and jury through the application of the 1988 Trade Act and other legislation.

Also, some of the US demands made in the Structural Impediments Initiative (SII), launched last summer by the US and Japanese governments in an effort to break down some of the structural barriers to more balanced trade between them, seem to constitute excessive interference in Japan's private affairs.

However, by late April, the two countries had managed to produce a surprisingly positive SII interim report, had reached successful conclusions to a number of bilateral sectoral negotiations to open Japanese markets and were still on speaking terms.

Basking in the glow of these

Armacost: "first officer"

successes, Mr Armacost staunchly defends his government's approach and suggests that it might even help save Gatt.

"One of the biggest threats to the multilateral trading system was the growing acrimony in US-Japan trade relations.

"We are trying to address that very directly and in a manner which is consistent with our wider Gatt obligations. There is no reason why there should be any inconsistency. We have sought no preferential deals. We expect any changes in the Japanese system will benefit everybody, not just us.

"We tend to inherit the role of the anvil chorus while some other countries sit in the background getting themselves in a position to take advantage of these structural reforms. Mr Andriessen [the EC external affairs commissioner] came here a few weeks ago and talked mainly about automobiles."

Mr Armacost acknowledges that the SII talks result in intrusions in what hitherto were considered a country's private business. "There is a judgment call to be made of far you can go without engaging in micro management. We had structural talks in the past, but they tended to very academic, with no real engagement. That is what we wanted to change.

"By and large, the reaction to our emphasis on detail was salutatory. Some regarded this as intrusive but, as we always said, we didn't think of these ideas for structural change.

"They have germinated in Japanese assessments of their own society. Also, the public reaction in both countries has been rather favourable."

Mr Armacost is confident that the rough and tumble of the past few months has not had any negative effects on the overall bilateral relationship. "One would have a difficult time suggesting that progress on the wider framework was incompatible with pressing hard on trade issues. We have had signal successes working together in the Philippines, floating the European Development Bank, supporting Latin American democracies. When there is friction in the trade area, perhaps that even increases the disposition to find cushions in other areas to reduce that friction."

Still, as he says, it takes a toll, and he would like to see the Japanese become more able to reform their structures on their own. "On these trade issues, unfortunately, there has been a tendency to rely on foreign pressures to jog a system in which producer interests are very heavily represented. One of the results of such pressure is to deny Japan credit for the steps it takes and to invite further pressure. I wish that would change."

The difficulties of negotiating with Japan have driven many US officials and intellectuals to call for various types of managed trade, but Mr Armacost remains unimpressed. "No one has been able to give me a clear explanation of what managed trade would mean other than a lot more work for bureaucrats for which they are not well prepared."

Motorola wins Japan phone race

By Robert Thomson in Tokyo

NIPPON Telegraph and Telephone Corporation (NTT), Japan's biggest telecommunications company, confirmed yesterday that equipment made by Motorola of the US will be the sole standard for the Japanese digital mobile phone system.

Mr Haruo Yamaguchi, NTT president, said equipment made by his company had come second "by a small margin" behind Motorola in official tests, but that the choice of the US company's technology "will not present any problems".

NTT, with 378,000 subscribers, has a 78 per cent share of Japan's mobile phone market, and also makes telecommunications technology. It hopes to continue its dominance over other carriers after the commercial introduction of a digital mobile system in 1992.

The choice of the US technology is a breakthrough for foreign suppliers in a key Japanese industry, and especially significant in telecommunications, a source of recent trade friction between the US and Japan.

Mr Yamaguchi said the choice was "based on technological considerations alone" with "no political influence" on the Japan Research and Development Centre for Radio Systems, which conducted the tests under the authority of the Posts and Telecommunications Ministry.

"It seems that what we tried to do with our equipment was sacrifice a portion of the quality for a lower price. The other party [Motorola] wanted to achieve higher quality. By a very small margin, NTT was ranked second."

Eight companies submitted coding-decoding equipment, a central part of the system, for testing, among them six Japanese companies – NTT, Toshiba, NEC, Fujitsu, Matsushita Communication Industrial and Mitsubishi Electric – and Ericsson of Sweden.

Formal announcement of the choice is expected later this week, with companies wishing to supply the Japanese digital market likely to seek Motorola's approval to use patented technology. Mr Yamaguchi said "no problems" were expected in getting Motorola's help.

"I don't think the selection of this technology as a standard will cause problems. I understand the Motorola standard is the US standard, so the choice is good because the US and Japanese standards will be the same."

Britain urged to trade with S America common market

THE first Argentine trade mission to visit Britain since the Falklands war yesterday challenged European businessmen to invest in setting up a South American economic community with a market valued at £500bn a year, Tim Burt writes.

Mr Jose Octavio Bordon, governor of the province of Mendoza and delegation leader, said in London that plans for a project to develop trade between Argentina, Chile, Bolivia, Paraguay, Uruguay and Brazil would offer rich investment opportunities.

The EC could not afford to ignore trade from countries such as Argentina while preparing for its own single market, Mr Bordon added.

He claimed Argentina had led the way for a similar free trade area in South America. "We have opened waterways to Bolivia and Paraguay, offering them access to the sea. Argentina is developing a free and fair market."

His administration had begun a privatisation programme which had seen Giol, Latin America's biggest wine producer, sold to a consortium which was now set to export to Europe.

The province's wine industry, which produces 70 per cent of Argentina's wine, was a model for other industries seeking exports.

Brazil currently accounts for more than 30 per cent of Mendoza's $206m (£122m) export trade, followed by the US, Chile and Canada.

The only significant European market at present is France, which buys $6.94m worth of its produce.

Event for 6,000 athletes faces cash crisis

Rescue operation begins on World Student Games

By Jimmy Burns

A RESCUE operation was underway last night to try to ensure that the World Student Games will go ahead next year in Sheffield after the organising company, Universiade GB Ltd ceased trading amid debts of nearly £3m.

The local authority, Labour-controlled Sheffield Council, was expected to announce last night that it would eventually jointly run the organisation of the games with the Sports Council.

The initiative, which will aim to protect both creditors and sponsors who have already committed money to the games and avoid the national humiliation of the games being abandoned altogether, emerged after weeks of behind-the scenes negotiations involving Government ministers and senior civil servants.

Mr Norman Adsetts, deputy chairman of Universiade GB, said: "The games will definitely go ahead now. There was no more that could be done for Universiade GB."

Both the City Council and the Sports Council were confident of raising the sponsorship necessary to stage successfully the biggest world sporting event outside the Olympics.

The Sports Council is expected to take on national and international marketing while the City Council will focus on the logistics of staging an event with 6,000 athletes and officials by July 14 1991.

Trouble had surfaced publicly in December when the board of Universiade GB dismissed Mr Peter Burns, its chief executive, and disclosed that it had little money left to pay its fifty-strong staff. Mr Danny Simpson, the finance director, subsequently resigned for personal reasons.

An audit and review by two firms of accountants in February disclosed that Universiade GB had spent £3.9m in the 27 months to the end of last year, against revenue from sponsors of only £700,000.

The survival of the games is viewed locally as extremely important for a city which in recent years has been badly damaged by steel industry closures and recession.

Court lifts convictions on trading

By Robert Rice, Legal Correspondent

SUPPORTERS of the campaign to allow stores to trade on Sundays yesterday scored a notable victory yesterday when the High Court overturned trading convictions against two national DIY chainstores, Payless DIY and W.H. Smith Do-It-All.

The judges, Lord Justice Mustill and Mr Justice Schiemann, followed the ruling of the European Court last November on a similar action against the chainstore B&Q, which said that Article 30 of the Treaty of Rome, prohibiting quantitative restrictions on imports between member states, must take precedence over Britain's 40-year old Shops Act which restricts store opening times.

Retailers claim the effect of complying with the ban on Sunday trading would be a permanent reduction in turnover of their stores, which would in turn reduce the orders which they place with suppliers in other member states and therefore indirectly reduce the imports into the UK from those member states in breach of Article 30.

Mr Roger Boaden of the Shopping Hours Reform Council hailed the decision as a major victory.

London fights import rules on Japanese cars

By Kevin Done Motor Industry Correspondent

THE Government in London yesterday intensified the growing conflict in the European Community over Japanese cars by insisting that Japanese cars produced in Britain or the EC should be excluded from any future restrictions on Japanese car imports.

The European Community is currently in disarray over formulating a policy for Japanese car sales in the EC single market after 1992.

The UK Government is under heavy pressure to defend the interests of Japanese car makers which are investing more than £1.8bn to develop three car plants in Britain.

Several leading car producing countries in Europe, most notably France and Italy, are campaigning hard to have all so-called Japanese transplants – Japanese car assembly plants based in Europe – included in a future regime for restricting Japanese car sales in the EC.

At the symbolic ground-breaking ceremony for Toyota's £700m car plant at Burnaston, near Derby, yesterday, Mr Nicholas Ridley, Secretary of State for Trade and Industry, declared that "no obstacles can or shall be placed on the free circulation" in the EC of Japanese cars built in the UK."

Toyota cars built at Burnaston would be British cars, said Mr Ridley. "Toyota knows that the Government is determined to ensure that no obstacles of any kind will be placed on trade in cars built within the European Community as member states begin to dismantle quotas on direct imports of cars from Japan."

EC foreign ministers are due to begin debate the issue of Japanese imports again later this month but recent talks between the European Commission and the Japanese Government appear to have made little headway in producing a transitional regime acceptable to both the UK and to France and Italy.

The issue is vital to the UK Government which is looking to Japanese car makers both to help boost UK car production from 1.3m last year to around 2m cars a year by the mid to late 1990s. Mr Ridley said the record of the UK in attracting Japanese investment had been "second to none in Europe".

The planned Toyota plant, the company's first European car plant, is scheduled to begin production at the end of 1992 with output climbing to 200,000 cars a year in the second half of the 1990s.

Mr Junji Numata, a managing director of Toyota Motor and chairman of Toyota Motor Manufacturing (UK), said around 70 per cent of Burnaston's output would be exported chiefly to Europe.

Mr Numata said Toyota would probably begin exports to Japan in 1994/5. The company is also considering exports from North America to Europe, he said.

He added that up to 60 per cent by value of the components to be sourced in Europe would come from the UK. European components purchases for the 100,000 cars a year first phase should total around £300m a year.

Soccer fans stunned by plan to merge Scottish clubs

By James Buxton, Scottish Correspondent

A SURPRISE attempt to create a single soccer club in Edinburgh, the Scottish capital, from the rival soccer teams of Heart of Midlothian (Hearts) and Hibernian, (Hibs), yesterday stunned the world of Scottish soccer, outraged Hibs' fans and caught some members of the Hibs board unprepared.

Hearts, led by its chairman Mr Wallace Mercer, a leading Edinburgh businessman who has a controlling share stake in the club, is offering £6.1m in cash for Edinburgh Hibernian, which is quoted on the London stock exchange's third market. The offer values Hibs shares at 40p each, against last Friday's closing price of 20.5p.

Hibs' leading shareholder, Inoco, a company controlled by businessman Mr David Rowland, has given an irrevocable undertaking to accept the offer on behalf of its 29.9 per cent stake. But the full board of the club did not know of the offer in advance and was meeting last night to consider it.

Hibs fans reacted with disbelief to the possibility that their club might be subsumed by its long-standing rival Hearts. "We've been betrayed," said one of several hundred fans who gathered anxiously outside the club's headquarters in Easter Road, Edinburgh, last evening.

Mr Mercer said the offer provided an opportunity to create a new club which had no "tribalistic bias" – an apparent reference to the fact that Hearts draws its support largely from Protestants in eastern Scotland and Hibs from Catholics. He said the merger would give the newly-formed Edinburgh club the strength to perform in any future European league.

It would also reinforce Hearts' proposal, unveiled recently, to build a new stadium on the outskirts of Edinburgh, in association with Mr David Murray, the Edinburgh businessman who is chairman of Rangers football club in Glasgow.

The new club would begin playing in the Scottish premier league from the 1991-92 season under a name yet to be decided. The Easter Road ground would be closed, Hibs' assets sold off and its debts, estimated by Mr Mercer at £6m, paid off.

Although Hibs has been successful on the field, the club has been a source of controversy since its shares were sold to the public at 55p each in October 1988 raising a net £1.6m.

The following February the company raised a further £4.8m in a rights issue, almost all of which was left with underwriters. The bid would cost Hearts about £13m.

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BRITAIN IN BRIEF

Council bid for overseas teachers

The London borough of Tower Hamlets said it will begin recruiting permanent teachers from Australia and New Zealand later on this term in an effort to meet a chronic teacher shortage.

The borough said it had agreed in principle to use an Australasian recruitment firm, Southern Cross Teachers Ltd, to encourage teachers to work in the borough.

Tower Hamlets has been widely recruiting from abroad, most recently arranging for the employment of at least 30 teachers from the US and 10 teachers from Bangladesh.

The borough, which estimates that some 200 school children are being sent home for lack of teachers, has also recruited staff from other EC countries.

BBC demands explanation

Mr Paul Fox, managing director of BBC Television has asked his counterpart at TV-am, Mr Bruce Gyngell, for a formal explanation for the breakfast television company's "unprecedented action" in recording and transmitting two minutes of BBC coverage of the Cup Final replay last month without approval.

The incident is the latest example of the increasing strains being placed on traditional arrangements between broadcasters for "news access" at a time when large amounts of money are being paid for exclusive rights to sporting events.

Paul Fox

Pleas for nuclear energy

The public enquiry report on a £1.55bn Hinkley Point C nuclear power station is expected to be delivered to Mr John Wakeham, Energy Secretary, within the next few days.

Nuclear Electric, the state-owned power company, is pressing ahead with its application for the Hinkley plant in spite of a government decision to halt the building of further nuclear stations, at least until 1994, when an economic review is scheduled.

Meanwhile, the Engineering Council warned that up to 2,500 engineering jobs would be at risk if Britain abandoned the nuclear power industry.

Former MP charged

A former Labour minister was charged with criminal deception, Merseyside police said.

Mr Les Huckfield, a former junior industry minister, was charged with two offences of criminal deception under the Theft Act and bailed to appear before St Helens magistrates on July 11, police said.

Mr Huckfield, formerly MP for Nuneaton, was MEP for Merseyside East from 1984 until 1989, when he became the first Labour MEP to be deselected.

Les Huckfield

Accountancy income up

The UK's big six accountancy firms reported fee income growth of more than 20 per cent for 1989-90, thereby continuing a trend which has seen fees grow by between 20 and 40 per cent for each of the past five years.

Price Waterhouse announced fees up by 35.2 per cent for the year to March 31, from £222m to £300.1m, whilst Coopers & Lybrand Deloitte, the UK's biggest firm, reported fees up 28 per cent, from £414m to £531m.

The figures appear to suggest that the big firms have not been harmed by the slowdown in the UK economy as a whole.

Environmental audits urged

Every company is to be urged to carry out a regular audit of its impact on the environment in a policy statement to be published by the Confederation of British Industry tomorrow.

The policy statement, issued to coincide with a CBI conference in London on the environment, is the strongest endorsement yet given by the CBI to environmental auditing.

Environmental audits, more common in the US than in Europe, are systematic examinations of the impact of a company's entire operations on the environment.

Child labour claim

Children are increasingly being used to prop up the state through cheap, unskilled work, Labour claimed today.

The party's spokesman for children, Joan Lestor, said that the Government was making the situation worse by failing to enforce existing laws and refusing to raise child benefit.

UK NEWS

GEC-Marconi seeks to build missile for RAF

By David White, Defence Correspondent

GEC-MARCONI is understood to be bidding to supply the Royal Air Force (RAF) with an air-to-air missile, worth several hundred million pounds, in direct competition with a troubled British Aerospace project.

The GEC-Marconi scheme, based on a French weapon, marks a new departure in the UK missile business. The company has been the traditional supplier of guidance systems for BAe missiles.

The Ministry of Defence aims to revive US Government support for the BAe-led project, the Short-Range Air-to-Air Missile (Asraam).

That missile, designed to replace the US Sidewinder in Nato use, is linked to a US-developed medium-range missile known as Amraam. The European-developed missile will also be produced in the US and vice versa.

Sir Peter Levene, MoD procurement chief, is believed to have tried to persuade US officials not to drop the agreement, even though Asraam will not be ready by the 1994 target date. Both missiles are due to be deployed on the European Fighter Aircraft.

West Germany, which was Britain's main partner in Asraam, withdrew last July after numerous difficulties.

In its place, BAe has been negotiating a link with Hughes Aircraft, the US General Motors subsidiary, to obtain a seeker head and guidance system for the missile. Hughes is the prime contractor on Amraam.

BAe submitted a new proposal to the MoD early this year, reducing the development and initial production price of Asraam from the original £1bn estimate.

GEC-Marconi is understood to have placed a cheaper rival bid with Matra and Dassault Electronique of France.

That would be based on the MICA weapon the two French companies are developing for France's Rafale fighter.

GEC-Marconi is already participating with Dassault Electronique in making the seeker for the French missile. The two companies made a co-operation agreement last year after a pact between BAe and Thomson-CSF, the principal French defence electronics company.

Defence projects at risk from cuts

By David White, Defence Correspondent

THE Anglo-Italian EH101 anti-submarine helicopter programme and the Anglo-French-German Trigat anti-tank weapon development are reported to be two of several armaments projects on an internal Government list of potential defence cuts.

The UK magazine Jane's Defence Weekly, in its edition to be published today quoting senior Treasury officials, says projects at risk also include the next generation of nuclear-powered attack submarine and an anti-tank weapon for RAF aircraft.

They are believed to be part of a series of wide-ranging cuts throughout the armed services – including the Royal Navy and Royal Air Force, which were thought to have largely escaped major cost-cutting provisions.

Treasury pressure is building up while the Ministry of Defence (MoD) conduct a re-assessment of UK military requirements.

While arms reductions under the expected Conventional Armed Forces in Europe (CFE) agreement focus on army equipment, it is becoming clear that the other services will not escape cutbacks in their weapons programmes.

The Treasury scored an initial coup last autumn when it persuaded Mrs Margaret Thatcher to pull Britain out of an eight-nation warship programme, against the Ministry of Defence's advice.

At risk: the Anglo-Italian EH101 anti-submarine helicopter

According to Jane's, the MoD and the Treasury recently gave Mrs Thatcher a presentation on the EH101 project, both in its Navy version and in its proposed troop-carrying version for the RAF. This followed a review of an internal report by the National Audit Office.

The MoD is seeking on overall prime contractor for the programme. The helicopter, being developed by Westland of the UK and Agusta of Italy, was originally planned for 1991 delivery but is not expected to be ready before late 1994.

The MoD recently raised its estimate of development costs from £835m to £1.1bn.

The new submarine, known as SSN-20 or W Class, was due to start replacing the Navy's nuclear fleet submarines from the late 1990s.

Slightly bigger than the latest Trafalgar class, it is due to use the same Rolls-Royce reactor as the Trident ballistic-missile submarines.

A design contract was placed with VSEL at Barrow-in Furness in 1987, and work has already started on "long-lead" items. A first order was originally expected to be placed this year but is now not expected before 1994.

On the RAF's anti-armour weapon, the Treasury has already blocked funds for "risk reduction" work on two competitive projects, both selected by the MoD in 1988.

GEC-Marconi, which is proposing the Brimstone, based on the US Hellfire missile, and Hunting, offering a rather different "dispenser" weapon in collaboration with Honeywell of the US and Diehl of West Germany, had each been hoping for about £40m in initial-phase backing.

The Treasury is looking for reduced MoD investment in different kinds of anti-armour systems, which it argues will be less in demand once a CFE agreement is in place and the Soviet Union makes deep cuts in tanks and armoured combat vehicles.

It is pressing the MoD to reconsider the mix of land-based and air-delivered weapons.

Harmony in EC training will be 'near impossible'

By Lisa Wood, Labour Staff

HARMONISATION of arrangements for vocational training within the European Community was described yesterday as "near-impossible" by Professor Peter Thompson, chief executive of Britain's National Council for Vocational Qualifications.

Professor Thompson, whose organisation is supervising the accreditation of levels of competence in British vocational training, was one of several speakers at a conference on training and qualifications in Europe organised by Britain's Trades Union Congress (TUC). Professor Thompson told the conference that as part of the process of bringing about the Single Market, the Community had enacted directives on vocational qualifications. "This is because the understanding and acceptance of qualifications gained in other member states will aid labour mobility and prevent individual countries' national qualifications requirements becoming an unnecessary barrier," he said.

Professor Thompson said, however, he could not envisage a trans-European arrangement for training. He added: "Training arrangements are built into our financial, political and social structures. What can be afforded in Germany and what is possible in Greece, Portugal or Spain is very different."

Rather, he said, member states had to define levels of competences for different occupations and leave states free to use their own delivery systems to achieve the specific standards.

Mr Andre Kirchberger, a member of the Cabinet of Mrs Vasso Papandreou, the Social Affairs Commissioner, spoke of the work of the Commission on the Action Programme – which follows up the Social Charter – and said the Commission tomorrow would be considering three draft directives on atypical employment including part time work, temporary work and sub-contracted workers.

Gerry Adams

Sinn Fein 'ready' for peace talks

By Jimmy Burns

MR GERRY ADAMS, the president of Sinn Fein, the political wing of the IRA, said yesterday his organisation was ready to talk to the British Government in a bid to move towards peace in the province.

In London, meanwhile, six men were detained by police in London in connection with recent IRA terrorist attacks on the British mainland as a 60 year old Catholic man was killed and his two sons seriously injured in what may have been a loyalist revenge attack for recent IRA outrages.

Police held the six under the Prevention of Terrorism Act after a series of raids. Mr Adams, who was in London to launch a new book, refused to condemn outright the recent spate of IRA killings against military personnel or to accept a ceasefire which the Government has suggested could be a minimum pre-condition for such talks.

Mr Adams, who is also MP for West Belfast, said: "The British Government has never listened to the force of argument...they only listen to the argument of force."

He described the mistaken killing of two Australian tourists by the IRA last week as "inexcusable and unjustifiable" and said he "could completely understand" the outrage felt in Australia.

But Mr Adams referred to the IRA activists who shot dead an English private on Friday as "freedom fighters".

Labour offers SDP leader cool welcome

By Philip Stephens, Political Editor

THE OPPOSITION Labour Party yesterday offered a half-hearted invitation to Dr David Owen, the former Labour Foreign Secretary, to re-join its ranks as the final demise of the centrist Social Democratic Party, which Dr Owen formed, brought an outburst of personal acrimony among its remaining band of activists.

Mr Roy Hattersley, the Labour deputy leader, said that Dr Owen and his two fellow MPs at Westminster would be welcome to apply for membership of their local Labour parties. If the decision was his, he would not oppose them.

In comments, however, that did little to disguise the satisfaction of many senior Labour figures at the SDP's final collapse, Mr Hattersley made it clear that neither Dr Owen nor his colleagues could expect special treatment.

By contrast, Mr Paddy Ashdown, whose Liberal Democrats have been dogged by the continued existence of the SDP, made it clear that his first aim was to attract as many as possible of Dr Owen's supporters.

Privately many members of Labour's shadow cabinet hope that Dr Owen will decide in the run-up to the general election to urge his former supporters to cast their votes for the Labour Party.

They acknowledge that such an endorsement would add weight to their claim that the recent policy review marks a permanent shift by Labour into the centre ground of British politics.

The personal bitterness surrounding the decision by Dr Owen and the other members of the "Gang of Four" to quit Labour in 1981, however, still colours the view of senior party figures.

That, alongside Dr Owen's self-confident and frequently arrogant style were cited yesterday as ruling out his return to any position of power within the Labour party.

Meanwhile, Dr Owen faced stinging personal criticism yesterday from members of the SDP who had hoped to keep the party alive despite the slump in its membership to about 5,000.

Mr John Martin, a member of the disbanded party's national committee, said Dr Owen's endorsement over the past year of many of the policies adopted by Labour had been a significant factor in its demise and referred to him as a "one-man disaster area."

Consumer borrowing rate for April declines

By Rachel Johnson

THE RATE of consumer borrowing in Britain is falling in response to the Government's policy of using high interest rates to curb demand, according to official figures.

Expansion in credit has been slowing since February, according to yesterday's announcement which put the increase in the amount of outstanding credit in April at £143m, after a £146m rise in March.

New credit advanced to consumers in the month stood at £3.7bn for the third month running, and fell for the second month in succession for business loans.

The credit figures were only slightly above the City forecast. "Consumer credit is expanding at a slower rate than last year," said Mr Roger Bootle, economist at Greenwell Montagu. "The figures are looking decent at last."

Economists saw in the figures some positive signs that the Government was squeezing excessive credit growth out of the economy.

They compared them with money supply statistics last week that showed bank and building society lending to be at its lowest for four years.

The Treasury said the trend in net credit expansion was clearly *declining*.

While the amount of new credit remained "relatively high" the rate of repayment was matching it and resulting in smaller increases in the amount of total credit outstanding.

The increase in loans to consumers from finance houses and other specialist credit companies fell below the £100m mark for the first time all year.

On a quarterly basis, the downwards trend was more marked. In the first quarter of this year, the amount of credit outstanding increased by a total of £552m, a drop of 18 per cent on the previous quarter's £674m.

The Central Statistical Office yesterday revised upwards its estimate for retail sales volume in April, from a provisional 1 per cent to 1.2 per cent.

RESOLUTION ON THE MORATORIUM ON COMMERCIAL WHALING

17TH MAY 1990.

The European Parliament,

A. *recalling the European Parliament's belief affirmed in its resolution of 18 September 1987 that it is essential for the moratorium on commercial whaling to be strictly observed by all Members of the International Whaling Commission;*

B. *aware that the IWC must review the moratorium and consider modification of it this year;*

C. *deploring the fact that whaling has continued under formal objections and scientific permits since the moratorium came into effect in 1986, and that consequently one of the purposes of the moratorium, which was to give all whale stocks an opportunity to recover from exploitation, has not been fulfilled;*

D. *deeply concerned that the remaining whaling countries are pressing for the moratorium to be relaxed this year;*

1. **calls upon the Governments of all IWC Member States to sustain the moratorium on commercial whaling;**

2. **calls upon the Governments of EC Member States to take all possible diplomatic, economic and other measures to this end;**

3. **calls upon the Governments of Iceland, Japan and Norway to conform with the moratorium and to cooperate fully with the IWC in its efforts to develop a comprehensive and effective conservation regime;**

4. **calls upon the Governments of Norway and the USSR to withdraw their objections to the moratorium decision;**

5. **instructs its President to transmit this Resolution to the Commission, the Council and all IWC Member States.**

RESOLUTION PASSED. NO VOTES AGAINST.

GREENPEACE INTERNATIONAL

FT LAW REPORTS

Bank guarantee case can go ahead in the United Kingdom

BANCO ATLANTICO SA v BRITISH BANK OF THE MIDDLE EAST
Court of Appeal (Lord Justice Nourse, Lord Justice Stocker and Lord Justice Bingham): May 23 1990

A BANK guarantee or aval on a bill of exchange is subject to the proper law of the country where it is delivered; and where the courts of the country in which it is signed would refuse to recognise that proper law and would summarily reject a claim under the guarantee thus subverting its commercial purpose, the English court may be the appropriate forum to hear the claim if it would explore the case fully on its merits and if the transaction has a solid UK connection in that the defendant bank is incorporated in the UK.

The Court of Appeal so held when allowing an appeal by Banco Atlantico SA, from Mr Justice Leggatt's decision granting a stay of proceedings in its action against the British Bank of the Middle East (BBME).

LORD JUSTICE BINGHAM said Banco was a Spanish bank. BBME was a UK bank, with its main offgce in London.

By a written agreement made in Spain on June 2 1985, Mr Santiago Vila Marques agreed to sell to Mr Moosa Abdullah Al-Amri, a citizen of the United Arab Emirates, half the shares in a Spanish corporation.

The agreement provided for payment by down payment and a series of promissory notes to be guaranteed by BBME to Banco. It contained an arbitration clause of uncertain effect, but no choice of law clause.

Mr Marques signed as drawer a series of bills of exchange drawn on Mr Al-Amri, which Mr Al-Amri signed in Spain as acceptor. The bills were printed in Spanish. They bore a Spanish stamp and recorded a Spanish town as place of issue.

The bills were for £10,000 for payment to Banco's order at BBME in Sharjah in the UAE. BBME countersigned them in Sharjah as "avaliste" for Mr Al-Amri, and sent them back to Banco in Spain. Banco was holder of the bills.

"Aval" was an expression in international commerce, the nearest translation being "guarantee."

The bills were not paid on presentment because Mr Al-Amri believed himself to have been defrauded by Mr Marques. He started proceedings in Sharjah against Mr Marques.

It was unresolved whether the local court would accept jurisdiction because of the arbitration clause. Interlocutory orders were made instructing BBME not to pay the bills until further order.

When Banco, on Mr Al-Amri's default, sought payment from BBME, BBME replied it could not pay without breaching the orders and exposing itself to the risk of serious penalties for contempt.

In September 1988 Banco began the present action claiming $170,000 against BBME as indorsers or guarantors of 17 bills of exchange.

BBME applied to stay the UK proceedings on the ground that the appropriate forum was the UAE. On June 30 1989 Mr Justice Leggatt granted the application. Banco now appealed.

The judge was required to consider four questions:

(1) Was there a contract between Banco and BBME?

The parties accepted they were bound by contract.

(2) What was the proper law of the contract?

To decide the proper law the English court must apply English conflict of law rules. Those showed Spanish law to be the proper law.

The documents on which Banco sued were bills of exchange. Section 72 of the Bills of Exchange Act 1882 laid down a specific conflicts rule that where a bill drawn in one country was payable in another, interpretation of the indorsement was determined "by the law of the place where such contract is made."

If BBME was to be treated as an indorser, the contract was made in Spain, because "indorsement" under section 2 of the Act meant an indorsement completed by delivery. An aval took effect in English law as if it were an indorsement, and it would be anomalous if different rules were to apply.

If, contrary to that opinion, it were proper to apply the test of closest connection, the answer would be the same.

An English court would hold the contract of aval to be governed by the same law as the contract to which it was accessory.

(3) What issues had to be decided under the presumptive proper law of the contract?

The essential issues were (a) what was BBME's obligation under its aval; (b) was it a defence to show that payment could not lawfully be made in Sharjah; (c) if so, could BBME show that at all material times it was impossible to pay in Sharjah?

(4) Did BBME show that Sharjah was clearly a more appropriate forum than the UK for determination of those issues, having regard to the interests of all parties and the achievement of justice?

Banco had established jurisdiction in the UK, in the forum of BBME's incorporation, as of right.

Very clear and weighty grounds must be shown for refusing to exercise jurisdiction.

A balance of convenience in favour of the foreign forum was not enough. The interests of justice were paramount.

The evidence showed that the UAE courts would apply UAE law to any guarantee dispute if the guarantor was based in the UAE.

There was no developed doctrine of conflict of laws in the UAE. If Banco claimed in Sharjah, there would be no question of the court there applying Spanish law.

As long as the orders stood Banco could not usefully litigate issue (3)(c) in Sharjah. Here, however, it would be open to Banco to contend that lawful payment in Sharjah was not at all times impossible- since, if BBME had acted with vigour, the orders affecting it would have been modified to permit payment.

It could not be conducive to justice to require Banco as a party with an arguable claim under what the English court would hold to be the proper law, to litigate in a jurisdiction where it would be bound to face summary rejection of its claims.

Mr Justice Leggatt, having referred to section 72(2), said it would be "an unsatisfactory if not an unjust result" if the court, which had remote connection with the dispute, was obliged by English statute law to treat Spanish law as the proper law, "and thereby put the defendants in contempt of the orders of the Sharjah court." He said there was no good ground for supposing the orders would not "abide the outcome of the underlying transaction."

He then considered the closest connection test. He said the obligation to pay the bills was to be performed in Sharjah,and it was in the Sharjah court that Mr Al-Amri had begun proceedings on the underlying transaction.

He decided the connecting factors pointed to the Sharjah court as the most appropriate forum.

He stated the correct test, but erred in applying it.

First, he made no clear finding on the proper law.

Second, if section 72(2) applied he was wrong to hold that the guarantee contracts were entered into by BBME in Sharjah. They were entered into in Spain.

Third, if the proper law was Spanish, it was in dispute whether BBME's obligation to pay was to be performed only in Sharjah. Banco's expert Spanish lawyer said payment was to be made in London as the place of BBME's domicile if payment would be unlawful in Sharjah.

Fourth, if English conflicts rules identified Spanish law as the proper law, the judge was not entitled on the facts to sidestep that conclusion on the ground that it would yield "an unsatisfactory if not an unjust result," which in any event it would not.

Fifth, in accepting that the orders against BBME should "abide the *outcome* of the underlying transaction" the judge was evidently content that BBME's obligation should be treated as dependant on the underlying transaction, and that if Mr Al-Amri established fraud Banco should remain permanently out of its money.

That subverted the commercial purpose of an aval and the parties' contractual intention. In the English forum all aspects of the case could be fully explored on the merits.

Sixth, BBME's connection with the English forum was very solid indeed. It must be rare that a corporation resisted suit in its domiciliary forum. Rarely would the court refuse jurisdiction in such a case.

Seventh, the judge's concern that trial here would put BBME in contempt in Sharjah was exaggerated. That was possible but perhaps not likely.

A stay should be refused. The appeal was allowed.

Lord Justice Nourse and Lord Justice Stocker agreed.

For Banco: Steven Gee (Herbert Smith)

For BBME: Richard Hacker (Stephenson Harwood)

Rachel Davies
Barrister

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SO WHY DID IT TAKE SIX YEARS TO GET HERE?

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To answer this you have to turn the clock back to 1933 and the birth of the Toyota Motor Company.

The company set out, in the words of founder Sakichi Toyoda, to "stay ahead of the times."

This meant every new car would have to set new standards, not follow old ones. It also meant the Lexus LS400 would not be ready overnight.

In 1983 the production team was assembled. 2,300 technicians, 60 designers and stylists, 1,400 engineers, and 220 support workers.

Their brief was to assume nothing, and consider everything.

That's why over fifty wind tunnel tests were carried out before they achieved the lowest drag coefficiency of any luxury saloon.

To boost the V8 engine's output they built a new factory that manufactured the cylinder block and heads more accurately than ever before.

To minimise sound from the outside, clay models were fitted with microphones to detect any unnecessary wind noise.

To maximise sound on the inside they fitted a Pioneer seven speaker stereo system with compact disc auto changer in the boot.

The 155mph, four-cam, 32 valve, 240bhp engine was only developed after burning much midnight oil. (Conclusive proof that if you're going to make a fast car, make it slowly.)

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TECHNOLOGY

Michiyo Nakamoto describes an approach that enables machines to understand ambiguous data

The clear sense of fuzzy logic

Westerners often accuse the Japanese of ambiguity and complain that they seldom mean exactly what they say. A common gripe is that the word "yes" to a Japanese has different shades of meaning falling anywhere between "yes" and "no".

But now Japanese industry is taking advantage of this ambiguity in a variety of applications where a flexible response to vague or imprecise information is necessary in carrying out certain tasks.

They are using "fuzzy logic" – a concept that allows ambiguous information to be translated into numerical values. While conventional computers based on digital logic can respond only to specific and precise data, fuzzy logic systems can respond to ambiguous data such as "a little closer" or "warmer".

Fuzzy logic was first propounded over two decades ago by Professor Lofti Zadeh, an American computer scientist at the University of California. Ironically, though typically, the concept has not been put to much practical use in the US but has found its most avid followers in Japanese industry.

Zadeh developed the concept of fuzzy logic on the premise that most of the information that we deal with is ambiguous and that a good deal of our activity is based on our understanding not of exact information but of vague information or on our knowledge of what is highly probable.

Concepts such as "beautiful" or "tall" cannot be precisely defined in mathematical terms yet they constitute a large part of our understanding of the world and play a role in decision making and in the communication of information. The same could be said about our knowledge of what is usually true. What is known as expertise or trained judgment also depends to a great extent on this knowledge of what is generally true or usual.

Fuzzy logic provides a way of dealing computationally with such imprecise information or events of high probability. Systems based on fuzzy logic thus enable machines to perform tasks that have traditionally been dependent largely on the expertise and trained judgment of skilled workers or experts in a wide range of fields.

One area where fuzzy logic is being used widely is in process control, particularly in automation processes.

In factory automation, for example, fuzzy logic can take the place of skilled workers since it allows machines to take ambiguous information and make the kind of knowledgeable response that usually comes only with experience.

A computerised colour-matching system based on fuzzy logic developed by Nisshinbo Industries can recognise subtle distinctions – such as "a little darker" – which are crucial in mixing the exact colours required and which used to be dependent on experienced human judgment.

The best-known application of fuzzy control is in the subway system in the northern city of Sendai, which has been in operation for the past three years. The fuzzy control system does everything a train driver does, from starting the train and controlling the speed while it is running, to stopping it at the station. There is no driver, and although a licensed driver does board the train as a conductor, so far the system has not had to rely on a driver's experience.

The Sendai subway uses a predictive fuzzy control system, which means that it can predict what the outcome of a certain activity under certain circumstances will be. The trains are programmed to predict, for example, what will happen if the brakes are applied when the train runs at a certain speed, and to choose the best possible response according to its prediction.

There are several advantages to running a train on a fuzzy control system. Unlike a human driver, especially an inexperienced one, fuzzy logic controlled trains will not make a sudden stop at the station or miss the platform. Passengers can therefore expect a smooth ride. It is also a labour-saving device, which is no small consideration in the light of Japan's severe labour shortage.

Predictive fuzzy control was developed by Dr Seiji Yasunobu while he was working on the Sendai subway system at Hitachi, which makes the automatic train operation system used on the subway. Yasunobu is now division director at the Laboratory for International Fuzzy Engineering Research in Yokohama, an organisation of 49 companies that was established under the guidance of Japan's Ministry of International Trade and Industry.

Initially, fuzzy logic applications involved using conventional hardware and fuzzy software. The development by a number of companies, such as Omron, of computer chips that can handle fuzzy inferences has widened the sphere of application to areas such as consumer electronics, where speedier processing is required.

But it is not only in specialised industrial fields that fuzzy logic is finding widespread acceptance. The word "fuzzy" is becoming a household word in Japan now that the big consumer electronics makers are coming out with home appliances with names like "day fuzzy." Most of these consumer appliances use sensors to pick up a large number of ambiguous data which a microcomputer with a fuzzy control program then processes to determine the appropriate type of task required.

Fuzzy washing machines, for example, automatically choose the appropriate water level, wash cycle and wash time depending on data that is picked up by built-in sensors concerning the size of the load, amount and type of dirt and the type of detergent used. Matsushita's fuzzy washing machine chooses from about 600 wash cycles. Hitachi's machine picks up information on cloth quality as well.

Fuzzy controls are also well-suited to controlling room temperature. The "Beaver Warp Inverter Air Conditioner 65" developed by Mitsubishi Heavy Industries can maintain a more constant room temperature than air conditioners using conventional controls. The system is based on 50 "fuzzy rules," such as "if there is very little change in temperature, then retain power at present level."

In ordinary air conditioners, if the thermostat for the heater is set at 24 deg C, the heater will switch off when the room temperature reaches that level and only switch on again when it falls significantly lower. A fuzzy control enables the machine to blur this distinction so that the heater does not switch on and off but reduces its heating power to maintain the temperature at around 24 deg C. Mitsubishi says that the system has the added benefit of cutting the amount of energy spent to 76 per cent of its conventional air conditioner.

This is possible because fuzzy controls avoid using arbitrary thresholds.

Machines that are run on conventional systems will understand the concept of "hot" to mean anything at or above, say, 40 deg C. Everything else is defined as "not hot." Fuzzy logic, in contrast, blurs the boundaries of the numerical values that define a concept and allows systems to accept concepts such as "rather hot," or "not so hot."

Another promising area where the Japanese have been busy putting fuzzy logic to use is in expert systems. In the area of investment technology, for example, several companies have developed systems which use fuzzy logic to make decisions based on the kind of data, such as stock prices and exchange rates, which experts normally use to make investment decisions.

Fuzzy logic can also be used to introduce sophisticated visual information processing capabilities in home robots. Robots using fuzzy logic could conceivably recognise a human being against a complicated background — for example someone lying in bed — something not possible with today's artificial intelligence systems.

APPLICATION	COMPANY	FUNCTION
Aluminium rolling	*Furukawa Aluminium*	Corrects variations
Camcorder	*Sanyo Electric*	Responds accurately to sudden changes in illumination & subject position
Elevator system	*Toshiba*	Reduces waiting times
Garbage incinerator	*Fuji Electric*	Allows subtle adjustments in temperature, wind speed & quantities during incineration
Golf club selection	*Maruman Golf*	Determines the most suitable golf club for an individual
Kerosene water temperature controller	*Matsushita, Electric Industrial*	Keeps water temperature stable
PC speech recognition unit	*Ricoh*	Enables PCs to recognise spoken commands of up to 1,000 words in English & Japanese
Vacuum cleaner	*Matsushita, Electric Industrial*	Adjusts power depending on the amount of dust & floor condition

Printing under the sun

Clive Cookson on the mechanics of producing the Financial Times in five locations, including Tokyo

Sophisticated facsimile machines combined with a satellite-based communications network enable the Financial Times to print simultaneously in five places: London, Frankfurt, Roubaix in France, Bellmawr in New Jersey and, from today, Tokyo.

A comparison between the current FT printing network and the paper's first venture into international printing – the Frankfurt operation in 1979 – shows the advance of telecommunications over the past decade.

Originally, made-up pages were transmitted from London to Frankfurt using rotating drum fax machines. The images travelled by traditional analogue signals though ordinary telephone cables. Ken Barlow, FT communications manager, recalls the network then being not only inflexible but also technically unreliable: "Continuous communication with the two PTTs (British Telecom and Deutche Bundespost) was needed to keep the network up to specification."

Today's "flat bed" fax machines are much easier to use and more accurate than their predecessors. And the computer-controlled digital network has dedicated satellite links via Intelsat to Tokyo and Bellmawr and France's Telecomm 1 to Frankfurt and Roubaix. These are more reliable than the land lines used 10 years ago.

The FT production process starts with journalists in the paper's headquarters at Southwark Bridge, across the Thames from the City of London, writing and editing copy on the editorial computer system (known as Edwin).

The copy then travels down 2-megabit lines, supplied by both British Telecom and Mercury, to the printing plant six miles down the river at East India Dock, where the made-up broadsheet pages appear as bromides (photographic sheets) ready for the offset printing process.

For the international edition, each bromide is laid on top of a special newspaper fax machine and slowly scanned by laser. The plant has three Pagefax machines, manufactured by Crosfield, the British electronics company.

The Pagefax breaks down the page images into blocks of dots (pixels) like any other fax machine, though its resolution – 1,000 dots per inch – is 10 times higher than an office fax. This produces a digital stream which goes through a compressor to remove redundant data before it is transmitted to British Telecom's London satellite communications centre. From there the fax signal is beamed to the FT's four overseas plants.

On a typical newspaper page, the compression process reduces the data flow tenfold (most obviously by not sending individual pixels for white space around the text). This enables the FT to transmit faxes at 256 kilobits per second for each satellite channel. The faxing process takes about three minutes per page.

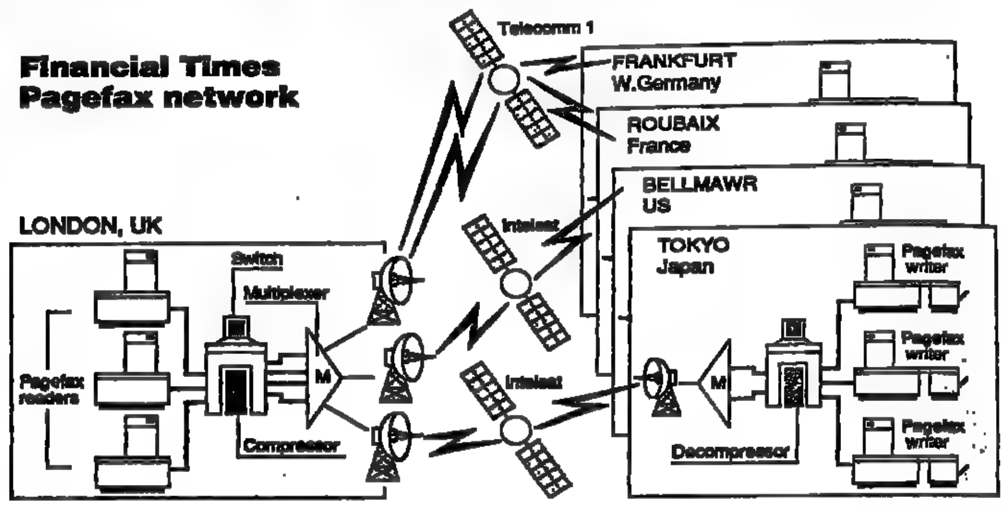
When the signals reach the satellite receivers in Japan, Germany, France and the US, the process is reversed. After decompression, a Pagefax Writer puts the image of the page on to photographic film, from which the local web offset printing plate is produced.

The Crosfield system has a Wydnet computer to make sure that the Pagefax machines are communicating properly. For example, it checks automatically that page images are received correctly at the overseas plants; if it detects an error in a particular block of pixels these will be retransmitted.

The overall FT network is managed by Megamux multiplexers supplied by General DataComm of the US. These control the passage of different data streams down a single communications channel.

The advantage of the Megamuxes, according to Barlow, is that as well as offering network management they are able to integrate voice and data communications. "On the Tokyo link we have already integrated a 16 Kbit per second voice channel to enable the respective print managers to 'talk the pages through'," he says. It will be possible in future to add further voice and data capacity for use by FT foreign correspondents as an alternative to the public telephone network.

Financial Times Pagefax network



MANAGEMENT: The Growing Business

The setting may have been incongruous, but the atmosphere was deadly serious. Packed into a big conference ...m in East Berlin's Sport Hotel in ...-Chi-Minh-Strasse, more than 600 ...ple listened eagerly as a succes...n of West German speakers initi...d them into the mysteries of the ...e market economy.

...atiently, West German experts ...plained the intricacies of raising ...ney, working out costs and prices, ...l maintaining a competitive edge ...siting businesses correctly and ...tching out for rivals. At times, the ...hering resembled a dry-as-dust ...ountancy seminar. Other speakers, ...wever, managed to mix in light...rted words of encouragement with ...ir hard-headed advice.

...utside the conference room, in the ...ef breaks between speakers, the ...od was more relaxed. Simon ...ard, a 38 year-old maintenance ...gineer from Frankfurt an der Oder, ... the Polish border, said he wanted ...start a new tennis and squash club. ...ace enough small companies set up ...East Germany, there will be people ...erested in these sports."

...ie had a good point. Tennis and ...ash are mainly middle class sports ...l a Mittelstand, meaning middle ...ss, but also describing West Ger...ny's mass of independent busi...sses, is what East Germany aims to ...ate. Indeed one of the principal ...es of the tattered East German ...nomy is the development of a ...iving variety of small- and medi...-sized businesses, the sort that ...es West Germany much of its eco...nic strength and flexibility. Mittel...nd companies in West Germany ...ploy up to 500 people and have a ...nover of up to DM500m (£178m).

"The Mittelstand system was ...troyed in East Germany," says ...lfgang Händel, a partner in the ...tuschka finance group in Munich. ...at small companies were forced ...o the huge kombinate (industrial ...upings) that came to dominate the ...nomy, making for rigid vertical ...egration. Since the kombinate, ...ether in motors, building, electron..., or other sectors, had to make ...st of their own parts and provide ...st of their own services, the econ...y became sluggishly inflexible.

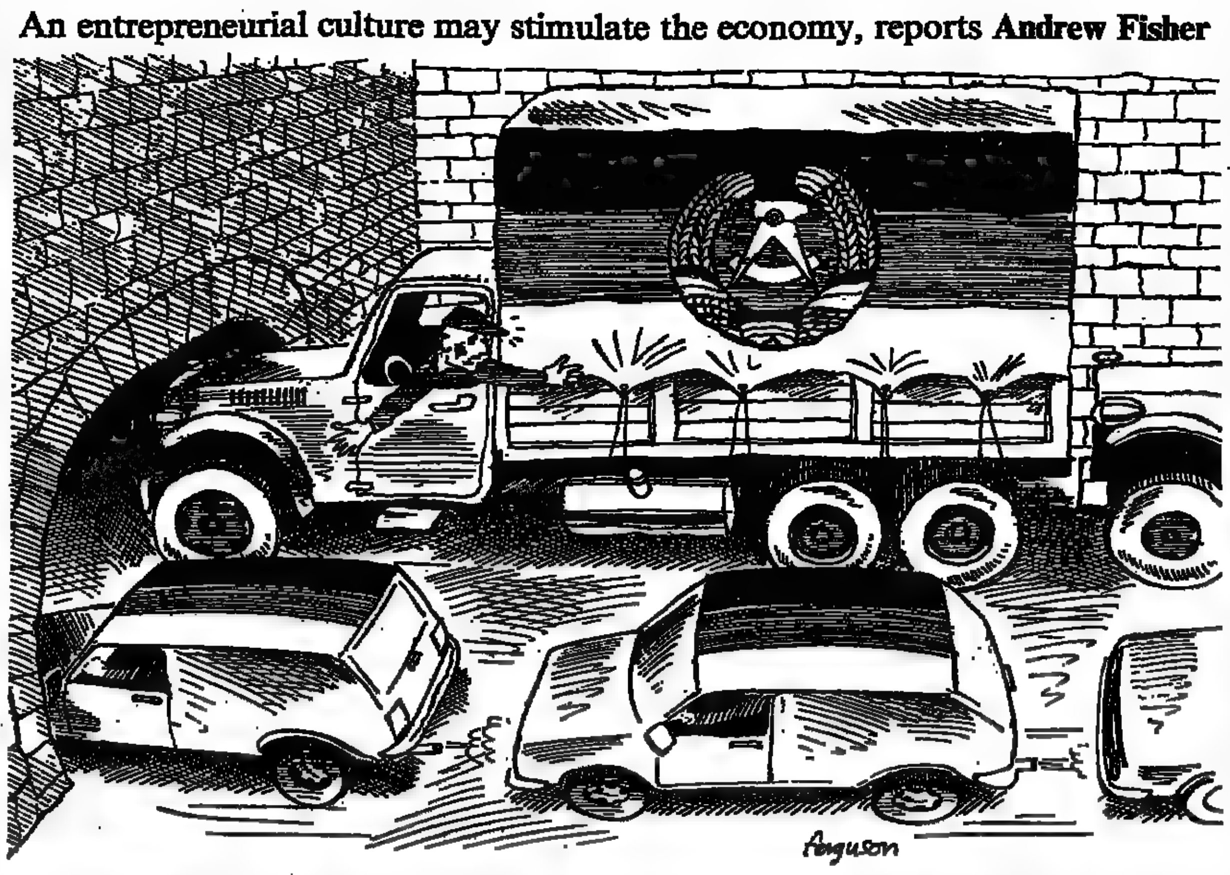
"The free market lives by constant ...nges in structure," asserts Händel, ...o is deeply involved in corporate ...l management consultancy in East ...rmany. "This comes from con...ntly having to make the decision 'do we make or buy?'. In East Ger...ny, the basic philosophy was to ...ke everything." Without the pres...e of competition, profits were ...lected – and irrelevant – and a ...t structure developed that is now ...upportable as the free market ...ws closer.

...rom the beginning of July, East ...l West Germany will have the ...ne currency and their economic ...tems will coalesce. When the ...-heavy kombinate start to crumble ...though some are expected to survive – unemployment will grow rapidly; estimates range from under 1m to 4m people in a population of some 16m. It is on the swift development of a viable Mittelstand that many politicians and economists pin their hopes for new jobs to bring a refreshing impulse to a care-worn economy.

Business regeneration

East Germany considers the Mittelstand model

An entrepreneurial culture may stimulate the economy, reports **Andrew Fisher**



A quick walk round the streets of any East German town or village shows how desperately new shops and services are needed, as well as small building firms to help renovate dilapidated buildings. Now that the border is open and D-Marks are on the way, many of the East German citizens' long pent-up demands can be met. Thomas Möller, head of Dresdner Bank's operation in Dresden, says his staff were shocked to see a uniformed policeman enter the office – but he simply wanted to set up a travel agency.

With the dismantling of the old centrally planned system, the thirst for knowledge among East Germans wanting to start their own businesses is huge. Bankers and consultants say seminars could be filled several times over, though only a small proportion of those attending would be able or bold enough to go it alone as entrepreneurs. If the number of small- and medium-sized businesses reaches the same proportion as in West Germany, where around 2m such companies employ more than 12m people (two-thirds of the workforce), over 500,000 new firms could spring up.

It remains to be seen whether Simon Erhard will be one of the new entrepreneurs. He reckons his tennis and squash club venture would need about DM350,000. Tennis is not a common sport in East Germany and squash is virtually unknown, so the opportunity is there; his city has only one tennis court and no squash facilities.

Still, it is a long way from having an idea to putting it into practice. Even more difficult is making it survive and pay. "We have a big learning process to go through," acknowledges Erhard. But like others at the East Berlin conference, organised by Dresdner Bank, Erhard was encouraged by what he heard. If he does go into business, it will probably be with a partner. He is prepared to give up his job, the future for which he is unsure of anyway.

One big opportunity in East Germany is in the professions. Joachim Sölle, 38, who has an economics training, works for a technical publisher in East Berlin, but wants to set up as a consultant to local firms wanting to learn about western business methods and strategy. "The country is ready to make a new start, economically. There are good chances, if you don't go into an area where too many companies are likely to be involved." He reckons tourism will be one such sector to avoid; East Germans' new freedom to travel has led to a rash of firms moving in to meet the demand.

Since it is still only six months since the Berlin Wall came down, the learning curve for budding new businessmen and women will be incredibly steep after several decades of central planning. "No-one was really prepared for the development," says Hans Sachs, 40, another seminar participant. He has a legal education and wants to practice as a lawyer, a profession held back by the former East German government. "Lots of managers only know the planned economy and are now helpless."

Until the early 1970s, there was still some flexibility in the East German economy. But 1972 saw the final wave of concentration, in which industry came to be dominated by the 200 or so kombinate. Small firms were not allowed to employ more than 10 people and the number of small- and medium-sized companies fell from around 10,000 to 2,000. In the past 40 years, the number of jobs in private companies has dropped from 4.4m to a mere 280,000.

Many of the businesses nationalised in 1972 will be reprivatised, and former owners are queuing to buy them back. That will be one component of a reconstituted East German Mittelstand. Another will be start-ups; a crucial source of finance will be the DM6bn (£2.1bn) of special funds being made available on preferential terms to help companies from both Germanys wanting to set up in East Germany, modernise operations there, or invest in environmental and tourism projects.

"This money was supposed to be enough for five years," says Burkhard Müller-Kästner, chief economist at Kreditanstalt für Wiederaufbau, which is supplying some of the funds. "But it will soon be used up, since no-one thought the demand would be so strong." Thus the funds will have to be topped up. Because of the less developed starting base, he reckons the money lent to East German firms, whether manufacturing or service, will generate far more jobs than the same sums would in West Germany, with its highly sophisticated infrastructure.

The strength of attendance at the East Berlin seminar shows clearly that the will to make the switch to the free market economy, with its opportunities and risks, is there. But more than the mechanics of business will have to be learned. A deep-seated cultural change must occur. "In our system, the customer is king," notes Wolfram Gruhler, an economist with the IW economic research institute in Cologne. "Under Socialism, the customer had to beg."

He agrees with others who have studied prospects across the border that the transitional phase before the East German economy really takes off in a few years will be very tough. "It could hardly be otherwise with such a Herculean undertaking."

The need for vigorous independent companies in East Germany is all too apparent across the board, in gastronomy, construction, transport, and a host of other sectors. The readiness to make the effort is also there. All East Germans have to learn now is that the right to fail is as much a part of the free market system as the right to succeed.

When knowledge is an insurance policy

By Charles Batchelor

What would be the impact on your profits if you had to agree a 10 per cent wage settlement with your workforce next month? How would you be affected if 15 per cent of your customers extended their payment periods by 30 days? And what would happen if your main competitor cut his prices by 10 per cent?

Any one of these developments could make problems for your business but by planning your response in advance you would be able to minimise the impact. Suggestions of how to prepare for such eventualities are contained in a booklet* from Dun & Bradstreet International, a business information group.

Your first step is to calculate a number of key financial ratios for your business. This health check table should include your gross profit margin, profits as a percentage of assets and capital, debtor days, stock turnover, profit per employee and profit per pound of pay, the booklet suggests. Similar information, or as much as is available, should be collected on your main competitor and on the norms for your industry.

As far as is possible your customers and suppliers should be judged by similar criteria because ailing competitors may cut prices; customers in difficulty may delay payment; while strapped suppliers might not deliver on time.

Returning to your own business: how easy was it to collect the information you needed? If you had problems, what can you do to make the data more readily available? Can you arrange in future to collect such information centrally and make it available to other departments which could use it? For example, do sales get to hear when credit control gains information which suggests a customer may not be a good credit risk?

Up-to-date information provides a protective shell for a business allowing it to monitor its performance and set realistic targets, the booklet says.

* *A tougher nut to crack. Available from D&B International, Holmers Farm Way, High Wycombe, Bucks HP12 4UL. Tel 0494 422000. 8 pages. Free.*

In brief...

■ More than one in four small companies has been forced by high interest rates to curb the scale of investments – the highest number since 1979, according to the CBI's *Smaller Firms Economic Report.*

For the fourth successive quarter smaller firms reported that spending on plant and machinery could fall over the next 12 months, showing the weakest investment outlook since October 1981.

An encouraging sign noted by the report, based on the responses of 700 firms questioned in the CBI's Quarterly Industrial Trends Survey, was that smaller firms expected the volume of new orders to stabilise soon.

■ Local business organisations are increasing their links with their Continental counterparts in anticipation of the creation of the single European market. The Essex County Council Business Centre based in Chelmsford (Tel 0245 283080) has arranged reciprocal visits with the Haarlem Chamber of Commerce in the Netherlands and is establishing links with Picardy in France and the Basque region of Spain.

■ National Westminster Bank is to hold small business workshops to provide guidance in subjects such as finance, marketing and training for new or would-be start-up businesses at 200 centres around the country in 1990. Advice will be provided by bank staff and local business advice bodies.

■ Pension options for the manager of the smaller business and self-employed person are the subject of a one-day course, New Pensions - Opportunities Explained, to be held on June 28. Areas to be covered include retirement annuity plans for the self-employed; group insurance schemes and new personal pension plans.

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LIGHT ENGINEERS. S. London.
PRINTING M/Co. Surrey. T/o. £300k.
FORK LIFT TRUCKS. S. London
GLASS CONTRACTORS. Kent. T/o. £300k.
METAL FABRICATION. S. Coast. T/o £300k.
PRECISION ENGINEERING. Various.

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BUSINESS SALES

ELECTRONICS COMPANY FOR SALE

Design and manufacture of specialised information technology products to TV Broadcast and public display markets. Good UK and export growth potential. T/O c£500K, pre-tax profit £60K.

Please write to Box H6300, Financial Times, One Southwark Bridge, LONDON. SE1 9HL.

Luxury Leather Goods

Marshall & Company Leathergoods Limited

The Joint Administrative Receivers offer for sale the business and assets of this old-established producer of a range of high class leather accessories for men such as wallets, cases etc, which are sold to quality outlets worldwide. Turnover for 1989 £617,000.

- Leasehold factory in Banbury
- Showroom and offices in central London
- Specialist plant and equipment
- Stock and work in progress
- Goodwill in the name and customer connections
- Skilled work-force

Interested parties should contact the Joint Administrative Receiver, *P R Copp FCA FCCA or C M Haig (Ref: CJ)*

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- Operating from well equipped freehold factory premises of 11,000 sq ft on a site of 1.2 acres.
- Members of the American Petroleum Institute, manufacturing to their specifications.
- Well established network of agents.
- Turnover approximately £700,000 with substantial forward order book.
- Considerable development opportunities for site subject to granting of planning permission.

The joint receivers are prepared to consider offers for the business assets and/or the freehold land and buildings. For further information contact
J Gleave or P Stanley
Arthur Andersen & Co.
Bank House
9 Charlotte Street
Manchester M1 4EU
Tel: 061-200 0297
Fax: 061-200 0362

ARTHUR ANDERSEN & CO

DOWNS OF MAYFAIR LIMITED

The Joint Administrative Receivers offer for sale the business and assets of this busy Restaurant and high-class Wine and Tapas Bar, situated in the centre of Wimbledon at 40 Wimbledon Hill Road.

Principal features include.
- Front Wine and Tapas Bar with 60 covers
- Conservatory Restaurant with 40 covers
- Downstairs 60 cover Restaurant and Cocktail Bar with small dance floor
- Open 12 noon to 2am Monday to Saturday
- Fully licensed
- Proprietor's 3-bedroomed flat above

The premises are leasehold and have been refurbished to a high standard.
For further information please contact the Joint Administrative Receiver:
Peter Beirne

KPMG Peat Marwick Corporate Recovery
Queen Square House, Queen Square, Brighton BN1 3FD.
Tel: 0273 820042. Fax: 0273 23723.

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The Financial Times proposes to publish this survey on:

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For a full editorial synopsis and advertisement details, please contact:

Paul M. Jefferis/Anthony G. Hayes
on 021-454 0922

or write to them at:

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George Road
Edgbaston
Birminghan B15 1PG

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

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Applications write to Box F9807, Financial Times, One Southwark Bridge, London SE1 9HL

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The Joint Administrative Receivers offer for sale the business of

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For further information please contact the joint administrative receivers David J Comey or John F Powell at:
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Telephone 021 236 9966 Fax 021 200 4040
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The business currently has a turnover of approximately £4.5m, has been consistently profitable, and has all relevant quality approvals.

This opportunity is suitable either for an expanding UK company or for an overseas group seeking to establish operations in the UK.

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Good site. (leasehold), good equipment (up to 70 mm extruders), excellent management, & sound systems.

WOULD SUIT a purchaser looking for capacity, OR
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The Joint Administrators offer for sale the business assets and undertaking of

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- Modern freehold premises (4710 sq ft)
- Car sales and workshop facilities
- Turnover £3.5 million
- 12 employees
- Saab franchise may be available

For further information please contact the joint administrators Philip G Porter and Adrian R Stanway at :
Cork Gully, 5, Town Quay, Southampton, SO9 1ZG.
Tel. 0703 632772 Fax. 0703 231628.

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Cork Gully

Directory of the Turf

The above prestigious publication, published annually, is offered for sale by its owners, who are dispersing their interests in bloodstock publishing.

For further details, please contact, Nick Robinson, 28 Danvers Street, London, SW3 5AT. Tel: 071 351 6686.

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He is now interested in an arrangement whereby his expertise may still be called upon on a consultancy basis.
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The company operates from freehold premises near town centre in the Thames Valley area.

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All enquiries should be addressed urgently to the Joint Administrative Receiver:- C.J. Barlow FCA, Cork Gully, 66, Queen Square, Bristol, BS1 4JP. Telephone ; (0272) 277165, Fax: (0272) 307008

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Cork Gully

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The business operates from leasehold offices in the West End of London.
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Further information may be obtained from the Joint Administrative Receivers, John Bennett or Ian Holland.

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For a full editorial synopsis and advertisement details, please contact:

HENRY KRZYMUSKI or
GILLIAN KING
on 071-873 3699/4823

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FINANCIAL TIMES
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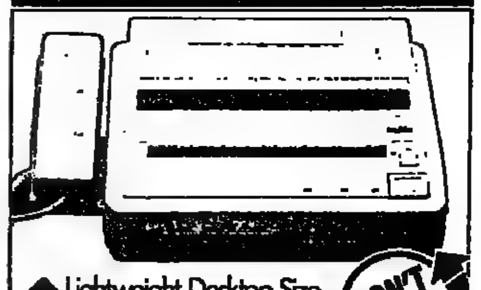

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IMPORTANT ANNOUNCEMENT

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FINANCIAL TIMES
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ARTS

Mainly homegrown talent

William Packer reviews the London galleries

Back from the Venice Biennale last week and bemoaning the comparative lack of painting, I find London's …ries full of the stuff – …st, well-made and mostly …ish. Michael Parkin has made the loucher byways …ritish art around the turn …e century his special prov… that world redolent of the …bolist poets and The Yel… Book, Chelsea and the Café …l – "Scent of Tutti-Frutti-Sen/ And cheroots upon floor." His latest offering …otcomb Street SW1: until … 22) is a celebration of its …iding genius and hero-vil… James McNeill Whistler, …ented largely through the …s his artist friends.

…e central figure is Walter …aves, the loyal acolyte …se work, so close to Whis…, is yet distinctive and not … be disregarded. Easily …er-rated too is the French… Jacques-Emile Blanche, …m Whistler knew from the …, represented here by a … glamorous study of an …nown Edwardian beauty. …e is much else, with art… such as Sickert, Rothen…, Roussel and du Maurier …epresented, if not by major …ks. There is even a Cour… a canvas of studies of the …e, for Whistler had known Courbet from his days in Paris in the 1850s and early '60s.

Whistler was notoriously a difficult man and dangerous friend. The show marks the centenary of his publication of that gleefully wicked collection of letters, lectures and occasional writings, *The Gentle Art of Making Enemies*, dedicated to "the rare Few, who, early in Life, have rid Themselves of the Friendship of the Many . . ." This he hurled defiantly at "Messieurs les Ennemis!" who, for him, were "the serious ones of this earth, carefully exasperated . . . prettily spurred on to unseemliness and indiscretion, while overcome by an undue sense of right." He was also a great artist, and everything to do with him remains of interest. It is good to hear that Parkin is republishing this still lively squib in a limited edition.

*

With his show, *British Impressionism* (34 St George Street W1: until June 16), David Messum now extends his scope beyond the Newlyn School, in which he has specialised hitherto, into Modern British at large. Newlyn remains in evidence, most especially in a huge and spectacular conversation piece by Harold Knight, but now the Scottish School predominates, through works by Walton, Peploe, Milne, McTaggart, Cadell and others. Best of all is the large flower piece by William Gillies, an artist still too little acknowledged in England but one who exerted remarkable authority and influence upon mid-century Scottish painting, an influence that continues to be felt. Good non-Northern British things include more flower-pieces from Matthew Smith and Duncan Grant, and a Provençal landscape by Grant as good as anything in the show.

*

Three contemporary shows to recommend are by painters of established reputation who have yet to win the general critical support they deserve. Jeffery Camp, whose latest work is at Nigel Greenwood (4 New Burlington Street: until June 30), is a painter of quintessential Englishness for his visionary romanticism and almost Spencerian idiosyncracy. Yet to these qualities he brings a freshness and originality in the handling of the actual paint on the surface, that taken in isolation could only be French – shades now of Matisse, now of Bonnard. More orthodox at first sight, but no less idiosyncratic in the painterly worrying of the surface, that teases images of wide beaches or the densest foliage alike out of an expressionist tumble and scurry of paint, is Anthony Eyton, now showing at Browse & Darby (19 Cork Street W1: until June 26). In any other country both painters would be celebrities.

The youngest of the three, is David Remfry, whose new work is at the Mercury Gallery (26 Cork Street: until June 23). Most are watercolours, large in scale and handled with an enviable freedom and virtuosity. His subjects this time are the party and the dance, his models dressed up, masked or painted, to be treated in compositions fraught with the erotic frisson of incipient, dangerous misbehaviour and enjoyment. These are exciting and ambitious works, carried off with confidence and panache. The few oil paintings seem as yet less successful, for Remfry seems not yet to accept the material difference between his chosen media. Once he begins physically to relish his oil paint as he does his watercolour, for the stuff it is, the problem will resolve itself. He might do worse than look at Matthew Smith.


'Magic-mad tonight;' watercolour by David Remfry at the Mercury Gallery


…dreas Jäggi, Marilyn Zschau and Philippe Rouillon in 'The Fiery Angel'

The Fiery Angel

HOLLAND FESTIVAL

The Holland Festival no longer mounts a country-wide spread of unfamiliar, chance-taking concerts and operas; budgetary limitations have severely restrained the ambitions that gave this enterprise its fame in the 1950s and '60s. But in compensation, the 1990 schedule was launched, at the Amsterdam Muziektheater on Friday, with a performance of unarguably festive character and quality – a work no longer as rare as formerly but still undoubtedly in opera's "special" category, and a production and musical performance which did it ample justice.

The work was Prokofiev's *Fiery Angel*, the missing link in his opera chain (its music and libretto, both by Prokofiev, were completed by 1923, only to be then left unperformed during his lifetime). It was here given by the Netherlands Opera in an Andrei Serban production already seen in Los Angeles and Geneva (and originally planned to proceed eventually to the Coliseum, though not any more, apparently – why not?); in the pit the Royal Concertgebouw Orchestra was conducted by Riccardo Chailly. This strange work – rough-hewn, oddly shaped, unreasonable in its demands upon singers and players alike – was nurtured by careful, intelligent, musically responsive treatment; it was made to exert an irresistible fascination, so that all the attendant hurdles seemed worth every effort of negotiation.

The Fiery Angel is a tough nut not because of anything inherently problematic in its subject-matter – a medieval tale of a possessed woman and the havoc she wreaks on those who cross her path – but because of the lack of coherence and continuity in its telling. The opera is at its most absorbing, indeed thrilling, in those episodes dealing with the symptoms and details of Renata's obsessions and in its scenes of witchcraft and the supernatural. There, Prokofiev's sulphurous thematic material (part post-Lisztian chromaticism, part Russian folkloric inheritance), motor-driven rhythmic patterns, and glamorous, whizzing orchestration stir up a dramatic excitement that brings to mind the action of some giant machine unstoppably in motion.

At other times, however, the pace seems to flag because the "filling" – the psychological insight into Renata and her besotted knight-protector Ruprecht – is missing: there is no depth (in the perspective sense) to the work, only a highly-wrought and high-coloured surface. Prokofiev's whole approach seems to relate itself to the basic tenets of Primitivist art, and it is probably this that determined the character of Serban's production.

The designs, by Robert Israel, take clear formal outlines (triangular set-shapes or Classical façades) and, with a surrealist's cool subliminal logic, throw them out of kilter; amazing and wonderful effects are achieved with kinked outlines and mad props. The lighting, by Claude Tissier, is in constant ebb and flow as it beams garish colours onto flat surfaces. And against this extraordinarily vivid background Serban keeps the action mechanised in a way that takes much of the opera to the limits of grotesque farce.

This happened far more consistently, probably, than its composer-librettist ever intended. Yet the production had the merit of containing the work tightly, unifying it; other treatments suggested by the confluence of music and text probably lack that advantage. Serban's staging avoided the mysterious, the spine-chilling, the spooky, which opens it to objection on those grounds, and no doubt on others as well (the final revelation of the Inquisitor as a Stalin-figure with hammer and sickle is a producer's "historical" intervention that could well be dispensed with: the effect is vulgarly knowing.)

For myself I found it overall a theatrical conception of spell-binding brilliance, sharp, witty, imaginatively and intellectually tough. It was here well enacted, and bravely sung in reasonable French (the "original language," even though Prokofiev's working libretto was in Russian), above all by Marilyn Zschau as Renata and Philippe Rouillon as Ruprecht. The American soprano is an experienced performer of this famously taxing role, and brings to it energy, magnetism, and a voice uneven but full of colour; the French baritone is not so compelling a stage figure, but that seemed to accord well with Ruprecht's equivocal dramatic purpose, and his singing was impressively solid (with help from light amplification – immoral or not? I'm not sure – in passages of Prokofiev's most unkindly heavy scoring).

Of the large cast Barry Busse (Agrippa and Mephistopheles), Andreas Jäggi (Glock and the Doctor), and Carmen Gonzales (Fortune-teller and Mother Superior) had a particularly zestful time with the production's drily zany routines; the deadly flat acoustics of this unhelpfully "wide" auditorium allowed the voice parts to seem much less interesting than they can. Nothing, though, could dampen the excitement of Chailly's conducting – it was that not just full-frontal but in its appreciation of all the frissons of colour in the scoring – or the virtuoso playing of the Concertgebouw. There are performances throughout June, well worth catching.

Max Loppert

Ernani

QUEEN ELIZABETH HALL

…its latest concert …formance Chelsea Opera …up chose *Ernani*. As in all …is organisation's most suc…ful ventures, several linked …evements can be praised. …day's performance …inded us that Verdi's fifth …a, recently neglected in the …don theatres, is a work of …ing vitality, amazing conci… and marvellously unfet…d vocal expressiveness. … gave opportunities to the … chorus and orchestra that …arded audience as well – …er Howard Williams (an … conductor whose gift of …matic command currently … strangely unnoticed in …se same London theatres) … performers captured a … measure of the opera's …sating dramatic energy. … it introduced us to singers …er new to this country or … to their Verdi roles who … worth hearing.

…nthony Mee took the title … An ENO house member, … usually limited, by reason …eight and figure, to minor or character tenor roles. Plainly, this is a misfortune, since he showed here that in vocal terms alone he can rise to real Verdian stature. The character of the voice, at once youthful, vigorous, and supple in utterance, allows him to embrace the aggressive and poetic sides of the hero equally (there was some eloquent *mezza voce* singing in the final act); more attention to Italian consonants (a bit soft and slippy at the moment) will sharpen the profile of his work even more.

The American Deborah Voight, latest winner of the Busseto Verdi Competition, sang Elvira. Her warm soprano, vibrant without being fruity, moves freely in exactly the sort of large lines the music requires – it's a properly expansive, malleable instrument, which marks her out as valuable Verdian potential. Whether Miss Voight will now proceed to an important career depends on her willingness to improve her Italian diction (far mushier than the tenor's) and to explore a greater range of musical detail and colour; at present she seems far too content with the usual all-purpose prima donna mannerisms.

Don Carlos, the great baritone role, went to David Barrell (currently singing in the WNO's Tornrak), who compensated with taste, intelligence, and acute sense of style for dry (though always clean) tone. In this drama of four tautly-balanced character and vocal types, these three singers between them worked up a good deal of dramatic movement. Unfortunately, the pivotal figure of Silva, the vengeful old bass fanatic, was clouded by Tom McDonnell's effortful tone and choppy phrasing; the finale, in particular, was denied its climax. As a whole, though, a rewarding occasion.

Max Loppert

Music in Paris

THE BASTILLE AND SALLE FAVART

With no opera performances in the immediate future, the Bastille offers a chain of star vocal recitals. The Czech soprano Edita Gruberova filled the house on May 28 with vociferous admirers for groups of Dvořák, Mendelssohn and Strauss. But was that what the fans had come for? They applauded while Gruberova reduced her supple voice to a suitable level for Lieder.

The able accompanist Friedrich Haider assiduously made himself sound like a pre-electric gramophone record. In the large, impersonal, un-cosy auditorium they remained audible but not with much to spare. The lines were drawn fine, but vitality was low.

The encores brought a clamour for favourite arias. A roar of delight greeted the soprano's eventual announcement of *Hamlet*. All pretence of a Lieder recital was dropped as Gruberova, still fresh after the main programme, sailed into Ophelia's mad scene. Now her chromatic runs – phenomenally accurate – drew gasps and gurgles of pleasure. Since Ambroise Thomas is no longer everyday fare nobody seemed to mind the absence of dramatic feeling – the simple line "Hamlet est mon époux et moi, je suis Ophélie" which Melba on her records made so pathetic, went for nothing and the sad folksong merely slipped by. There was much the same lack of poetry in the Bell Song from Lakmé.

So there we are, after all this time, and after so much hot air and so much money has been expended, back in canary-land. Is that what the seekers after operatic glory really mean by "popular opera?" If it leads to serious re-examinations of *Hamlet* and other half-forgotten favourites from the national repertory, well and good. Somehow the big, bad Bastille does not seem the right place. Wait and see.

*

There was a glimpse of what opera in France could be about at the Opéra-Comique the following evening, when the "Ecole d'art lyrique de l'Opéra de Paris" (opera school) showed off its paces with a triple bill of three shortish operas by Bizet. *Le Docteur Miracle* was Bizet's youthful entry for a competition for one-acters organised by Offenbach. Bizet shared the prize with Charles Lecocq. *Don Procopio* came shortly after, when Bizet had won a Prix de Rome and instead of sending back the customary Mass submitted this delightful, Donizettian Italian *opera buffa*. It was not performed in his lifetime.

These light works share the blessed quality of immediacy. The music jumps off the page – tunes sparkling or passionate, clear and colourful scoring, harmony rich with Chabrier-like chromatics.

Djamileh, a substantial one-acter on an oriental theme produced later, only three years before *Carmen*, has the same immediacy, handled with mature skill. For the general repertory the tripling looks well on paper but is too long (four hours) in practice. Either of the lighter pieces taken singly would pair well with *Djamileh*, a work to enrich any repertory.

The vocal standard was respectable, not exciting. With so many young singers involved it may be invidious to mention a few names. Yet Philippe Fourcade in the title-role of *Don Procopio* revealed a definite personality and a promising baritone with typically French forward-placing. Nathalie Dessay and Thierry Trégan, soprano and tenor in the same opera had good moments. Anne Constantin, Lauretta in *Le Docteur Miracle*, was another appealing light soprano. As the heroine of *Djamileh*, Marie-Anne Todorovitch deployed a strong mezzo and good presence – we will surely hear more of her.

The performers were more hampered than helped by the producer, Christopher Alden, brother of David Alden. The single set by Paul Steinberg, a tall, Bakstian chamber with sloping walls, was covered with what looked like patterned wrapping paper. In this space Alden kept his singers in almost perpetual motion, not in a mad rush but in a crawl, padding about, loping around, often on the ground or near it. In *Djamileh*, where he overplayed the streak of cruelty, the antics resembled a ballet of garden slugs – choreography by Florence Branca.

Ronald Crichton

Lufthansa Baroque

ST JAMES'S, PICCADILLY

The sixth Lufthansa Festival of Baroque Music is underway at St. James's (with one concert in Westminster Cathedral), and continues for most of the month. As usual, many of the leading specialist performers – from both sides of the Atlantic – are to be heard. The St James acoustic is sympathetic, if the pews are hard, and it is always an agreeable surprise to find Baroque devotees gathering peacefully just two minutes away from Piccadilly Circus.

On Saturday the excellent Bach Ensemble appeared at the Festival, for the third successive year, to accompany three of the church cantatas which their name-composer wrote for Leipzig. The band cultivates a particularly velvety sound, with a soft-voiced but penetrating violone as bass. This time the only winds were pairs of oboes and recorders, variously prominent in the three works; the final Chorale of "Du wahrer Gott und Davids Sohn," the 23rd Cantata, did without Bach's added parts for brass. It was enough, for the lucid concentration of the playing forbade any sense of excessive sameness.

The conductor Joshua Rifkin is well known for his conviction that in Bach's choral music the norm was just one voice to a part, even perhaps in the Passions. Accordingly, all the choruses and chorales here were delivered by the distinguished quartet of soloists: perfectly in scale with the band – and, fortunately, beautifully matched with each other. It was impressive that four voices of such strong individual character could melt into firm homogeneity. If anything was wanting, it was only a solidly resonant bass; Peter Harvey's eager, attractive baritone is so far a bit underweight.

The countertenor Michael Chance was at his mellifluous best in all this music, sheer pleasure to hear. His timbre blended seamlessly with Jane Bryden's pretty soprano in their two duets. Miss Bryden compensated for slightly dim words with lively musical imagination, fluting almost roguishly with the recorders in the 39th Cantata, "Brich dem Hungrigen dein Brot." For well-etched style, I thought the tenor John Elwes a very model, especially in his contributions to "Jesu, der du meine Seele," Cantata no. 78 – elegant phrasing, mature tone, the texts projected with fervour but no histrionics.

David Murray

SALEROOM

Rembrandt fails to sell

Old Masters have looked amazingly cheap for years compared with the prices paid for Impressionist and contemporary art. In the main the Japanese, the principal buyers of Impressionist and modern paintings, find them difficult to understand: they are outside their cultural experience.

But one artist that appeals to the Japanese is Canaletto: his post card views present little intellectual challenge. So it was not surprising that a good pair of Venetian scenes painted early in his career, around 1730, sold for a record $11m at Sotheby's New York last Friday. The surprise that is that they were acquired for an American by Citibank's art advisory subsidiary, which acts for the very rich who are too busy, or who feel too ill informed, to do their own buying.

The sale of Old Masters did quite well, totalling $18.86m (£11.2m), with 16 per cent bought in. Newhouse Gallery of New York also paid a record price, of $2.035m, for a work by Jan Brueghel the Elder, a scene of a wooded landscape populated by carts, cattle and peasants. A small Boucher of rural lovers surrounded by sheep sold for $726,000; a pair of paintings of figures in classical ruins by another 18th century French artist, Hubert Robert, made $464,000; and "The Road of Calvary" by the early 16th century Flemish artist Civetta realised $308,000.

Christie's had more problems with its Old Masters. The star lot, and the most important Old Master to be offered at auction for some time, an authenticated Rembrandt, "St Peter Repentant," showing the Saint in prison, praying, was unsold, with the bids getting nowhere near the $15m anticipated. This was not really a surprise. It is a fine painting but a sombre work. More to the point, Agnews had been offering it on the market within the last two years.

Unfortunately, a pair of still lifes by Chardin also failed to get near their $3m estimate, but "A peasant wedding feast" by Pieter Brueghel the Younger was bought by a Tokyo museum for $1.43m and in the middle section of the auction there was a string of artist records, including the $726,000 for a portrait of a lady by Frans van Mieris; $605,000 for "The annunciation" by Piazetta; and $407,000 for "The Virgin Annunciate" by the Italian artist Naddo Ceccarelli.

Antony Thorncroft

ARTS GUIDE — June 1-7

OPERA AND BALLET

London

…al Opera, Covent Garden. …on Rattle makes a belated …t conducting the new pro… by Bill Bryden of Janá…'s *Cunning Little Vixen*. Final …formances of the unhappy …*vatore* revival, with Carol …ess, Eva Randova, Alexey …blyanko, and Sergey Leiferkus …eading roles; Sian Edwards …ducts.

…ritish National Opera, Coli…m. End of the ENO season: …mance each of Robin …loway's *Clarissa* and *The …rriage of Figaro* (836 3161).

…ris

…ra. Taylor, Cunningham, …rris bring questions of psychology, of perception and of provocation to the Paris stage (47425371).

Théâtre de la Ville. After Pina Bausch's last performance on Friday, Dominique Bagouet returns with *Meublé Sommairement*, a text by Bove, choreographed for his company (42742277).

Berlin

Opera. *Fidelio* is a Jean Pierre Ponnelle production. *Der Feuervogel/Le Sacré du Printemps/Bolero* are three ballets, choreographed by Maurice Béjart. *Cosi fan tutte* is well sung by Angela Denning, Carol Malone, Ute Walther, Manfred Fink and Lenus Carlson. *Tosca* features Pilar Lorengar, Giorgio Merighi and Ingvar Wixell. Further offered is *Cinderella*.

Hamburg

Opera. *Romeo et Juliet* has John Neumeier choreography. *Zar und Zimmermann* is a well done repertoire performance with Gabriele Rossmanith, Wolfgang Rauch and Peter Galliard. Also an Eva Maria Tersson Lieder recital, accompanied at the piano by Herta Werner with songs by Wolf, Grieg, Sibelius and Rangström.

Frankfurt

Opera *Ariadne auf Naxos* convinces thanks to Helena Doese, brilliant in the title role. Further performances of *Rusalka*.

Cologne

Opera. The two rarely played Rossini operas *La Cambiale di Matrimonio/Il Signor Bruschino* are sung by John del Carlo, Teresa Ringholz, David Kuebler, Janice Hall and Alberto Rinaldi. Britten's *The Turn of the Screw*, sung in English, has fine interpretations by Helen Field, Samuel Linay, Machiko Obata and Menai Davies, expertly conducted by Stuart Bedford.

Bonn

Opera. Last *Fledermaus* performance with Ludwig Baumann, Pamela Coburn, Claudia Rueggeberg and Krisztina Laki. The successful *Das Rheingold* production by Jean Claude Rieber stars Wagner specialists Siegmund Nimsgern, Graham Clark, Manfred Schenk and Hanna Schwarz. Also Youri Vamos' ballet *Coppelia am Montmartre*.

Munich

Opera. *Nabucco* stars Julia Varady, Julia Faulkner, Wolfgang Brendel and Paata Burchuladze. *Die Liebe der Danae* has Sabine Hass, Andrea Trauboth and Paul Frey, excellent as leads. *Don Giovanni* has a first-rate cast led by Cheryl Studer, Mariana Nicolesco, Alan Titus, Kurt Moll and Goesta Winbergh. Also in repertory: *Mose* and John Cranko's ballet *Der Widerspenstige Zähmung*.

Madrid

Teatro Albeniz: Mozart Festival. Slovakian National Opera in *Don Giovanni* conducted by Viktor Malek and Rossini's *Il Barbiere di Siviglia* conducted by Olivier Dohnahy (246 76 22). Teatro Lirico Nacional la Zarzuela. Respighi's *La Fiamma* is performed for the first time in Spain, conducted by Jose Colladowith Monserrat Caballe. Produced by Hungarian State Opera. Ends June 17 (429 82 25). Finnish National Ballet. *La Dame aux Camelias*, based on music by Saint-Saens, choreography by Domy Reiter-Soffer. Centro Cultural de la Villa (575 60 80).

Barcelona

Gran Teatre del Liceu. Aprile Millo concert, with the Liceu's Symphony Orchestra conducted by Eugene Kohn. Rossini, Verdi, Smetana, Dvorak, Bellini (Wed) (318 92 77).

Rome

Teatro dell'opera. Last performance of Verdi's *Luisa Miller*, conducted by Roberto Abbado, and Oleg Vinogradov's version of *Swan Lake*, with soloists from the Kirov in the lead roles, sensitive conducting by Armando Gatto, but unsatisfactory sets, which leave the swans dancing against an unattractive background of mudflats (461755).

Florence

Teatro Communale. Luciano Pavarotti in Giuliano Montaldo's production of Verdi's *Il Trovatore*, conducted by Zubin Metha. Maggio Musicale (2779236).

Bologna

Teatro Communale. June Anderson (alternating with Giusi Devinu) and Vicenzo la Scola in Giancarlo Cobelli's production of *Rigoletto*, designed by Paolo Tomasi and conducted by Daniele Gatti (529999).

Venice

Teatro la Fenice. Pier Luigi Pizzi's production of Wagner's *Lohengrin* conducted by Christian Thielemann. Opens Wed (5210161).

New York

American Ballet Theatre. The 50th anniversary season includes this week Kenneth MacMillan's *Romeo and Juliet*. Season ends June 30. Opera House at Lincoln Center (362 6000). New York City Ballet. With a repertory still heavily steeped in Balanchine, the company presently features a festival of Jerome Robbins's ballets. Season ends July 1. New York State Opera House, Lincoln Center (870 5570).

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Living with success

THE VAST empire put together by the Tsars and then expanded into eastern Europe by Stalin's iron fist is crumbling away. All of its armed might is unable to keep it together; all the resources at its command cannot make the Soviet people rich. Meanwhile, tiny, resource-poor and densely populated Japan has a gross national product that, in terms of purchasing power, is not so far short of that of the Soviet Union. At official exchange rates, it is almost twice as large. The question for Japan is how it will use this economic might; that for the rest of the world is how to adapt to it.

The rise of Japan is, as a story of national regeneration alone, the most remarkable of the second half of the twentieth century. Since the early 1950s, when immediate postwar reconstruction had been completed, Japan's real gross domestic product has increased more than 11 times and its real gross domestic product per head almost eight times. Even now, when Japan's nominal income per head is among the highest in the world, economic growth is being sustained at over 4 per cent a year, faster than in all other industrial countries.

Yet the economic rise of Japan has wider implications. For Japan has achieved a prosperity and will soon possess an influence beyond anything that could have been achieved by warlike means. Japan's defeat and postwar success symbolise the triumph of peaceful internal development over the false coin of imperial sway.

This is, it is true, not how Japan's success has been generally seen. Writers, particularly in the US, talk of "containing" Japan. They complain about Japan's bilateral surpluses and its low propensity to import manufactures. They moan about the "targeting of exports". In short, they view Japan's success as a kind of war by other means.

Outmoded ways

Such commentators are clinging obstinately to outmoded ways of thinking. Japan's success has involved nothing more sinister than offering products that are cheaper, more innovative and more reliable than those of competitors. Japanese firms have transformed standards of product quality and business management. They have made the fruits of high technology available to ordinary consumers, not just the wealthy or, more often still, the military.

Japanese versed in the economics that westerners profess must wonder why bilateral trade surpluses are thought to be a problem; why countries say they are harmed by what their consumers freely buy; and why they demand financial liberalisation and then complain about the surpluses that tend to follow. They would be right to wonder, for such complaints make remarkably little sense.

Rearguard action

Contrary to such popular complaints, Japanese success has enriched, not impoverished, the rest of the world. Nor were any policies likely to prevent an economy this dynamic from being viewed as a "problem" by competitors.

None the less, the Japanese have been slow to recognise the responsibility brought by their economic success. For too long Japan has shielded behind the pretence of being small and poor. Instead of anticipating the responsibilities that went with being the world's most competitive supplier of manufactured goods, a rearguard action was fought in defence of obstacles to imports. The inevitable result was that each liberalisation has been regarded as too little, too late and too grudging – and so discounted.

That discount is by now too large. When Japan is resolved on adjustment, it adjusts impressively. Since its peak in 1986 the current account surplus has halved as a share of GDP. Between 1985 and 1989 the volume of imports of manufactures more than doubled. The adjustment is now slowing, but only because the forces of the economic tides are not under the control of even Japan's widely admired bureaucracy.

For the Japanese, the long-term challenge is to adjust fully to their success. The world will be looking to Japan for markets, for technical assistance, for capital and for economic aid. In all these respects Japan has made progress; in almost all there is further to go before its influence is commensurate with its success.

Yet it is not just a matter of Japan's adjusting to its new position in the world. It is also for the rest of the world to adjust to Japan. It does little credit to western powers that they belabour Japan with economic fallacies; it does still less that they view the rise of a peaceful, commercial power as an occasion for struggles over economic spheres of influence. Japan does not need to be "contained". Except for the atavistic nationalist, the fruits of its success are, instead, to be enjoyed.

Lessons from B&C

THE UK stock market's apparent lack of concern over the appointment of administrators at British & Commonwealth, the troubled financial services group, may at first sight appear surprising in view of the scope of the group's activities and the scale of its outstanding debts. Yet on closer inspection it is hard to disagree with the market's verdict; or, indeed, with the Bank of England decision not to step in as lender of last resort when it became clear last week that Barclays' attempt to co-ordinate stand-by arrangements for the merchant banking subsidiary were coming to nought.

Though widely reported as the biggest collapse in City history, British & Commonwealth is not, after allowing for inflation, a problem to match the worst of the cases that preoccupied the Bank of England's lifeboat in the mid-1970s. The deposit base of the merchant bank subsidiary amounts to little more than £300m. And many parts of the group, including the money broking operations, are still solvent and trading profitably. On the facts that have emerged so far this does not have the makings of a crisis of confidence in the system as a whole. But it does raise important regulatory questions about financial conglomeration and the risk of cross-infection between different components of a conglomerate group.

Confidence eroded

British & Commonwealth's overwhelming problem was the collapse of a computer subsidiary that lay outside the regulated part of its business. Yet the debacle at Atlantic Computers contributed to an erosion of confidence in the most sensitive of the group's activities, the merchant banking operation. And one of the more striking features of the bank's operations was that nearly half the deposits came from within the group, most notably from clients of the stockbroking and fund management subsidiaries.

Fortunately for those depositors the banking subsidiary is relatively well capitalised and there are apparently no incestuous advances to the rest of the group. But a progressive loss of confidence in the interbank market, followed by the failure of the banks to agree on a support package, raised doubts about liquidity that inevitably called the merchant bank's authorised status into question.

Restricted ability

In practice the Bank of England is unlikely to make the administrator's job harder by removing that status, though it will no doubt restrict the merchant bank's ability to take on new business. The deposits, meantime, have been frozen by the administrator. Given the size of the bank's capital base and the existence of the statutory deposit protection scheme, the depositors are unlikely to sustain heavy losses. But they may well experience worry and delay in winning back their money.

In the circumstances they would be entitled to ask whether the management acted with sufficient prudence in placing so much money with a small in-house bank. There is also a question whether the rules of the Securities and Investments Board (SIB) were drafted sufficiently tightly to prevent cross-infection.

It would be premature to pass judgment on the timing of the SIB's decision on Friday to prevent authorised firms placing money with the bank. But there is certainly a powerful case for restricting the proportion of client funds that a firm may place with a fellow subsidiary in a financial conglomerate; perhaps also for insisting that large client deposits should be more widely spread. The Chinese Walls at B&C would have benefited from more regulatory support.

After Tokyo's recent stock market fall, the economy is back on course, says Ian Rodger

Fortune smiles on Japan again

Japan has confounded the Jeremiahs yet again, weathering a sudden stock market drop early this year without any noticeable damage to its powerful economy.

More than two months after the Tokyo stock market levelled off from its 28 per cent plunge, the consensus among economists in Tokyo is that the country is back on course for real growth of more than 4 per cent this year – for the fourth year running – and can look forward to more strong growth for at least another year.

"We do not see any evidence that the sun will set in the near future," Mr Hirohiko Okumura, chief economist at Nomura Research Institute, says in an oblique reference to a recent bestseller in Japan that forecasts the collapse of the country's current account surpluses.

Now that most of Japan's huge markets are more open to imports, this is good news for the world as a whole. Or it would be if it were not for the weakness of the yen. Japan's export volumes have risen in recent months despite government attempts to restrict them, and this trend seems likely to continue. Adding to an already sensitive issue, a perverse diversion of Japanese export flows from the US and Europe to the developing countries of south-east Asia has emerged.

Meanwhile, recent financial reports from leading export-oriented manufacturers confirm that they are making a killing on their overseas sales. Profits of industrial companies were up an average of 12 per cent last year, and many have attributed their better than expected gains to higher margins on exports, thanks to the weak yen. US and European manufacturers know, from experience, that a good chunk of those profits will be put into new investments that will make Japanese manufacturers even more competitive than they are now.

When the Tokyo stock market fell early this year, economists' main concern was that this would undermine business and consumer confidence, leading to lower spending by both. For the past two years, business investment has been the driving force behind the economy's growth, having taken over from public pump priming as the recovery gained pace. At the end of last year, with confidence still running high, most forecasters were looking for a 9 to 10 per cent rise in corporate capital spending by all industries this fiscal year after a 19.4 per cent surge last year.

But as interest rates rose and the stock market crashed, they tended to revise down these figures to the 7 to 8 per cent range, assuming that companies would postpone some capital projects. If the market had continued to decline and interest rates to fall, that might well have happened, but there is little evidence of cuts so far.

A survey of 4,475 large companies, carried out by the Government's Economic Planning Agency in March, revealed that many leading industries were maintaining ambitious spending plans. Responses to the survey indicated that spending by the steel industry would jump by more than a third this year while that by the general machinery sector would rise 18.9 per cent, the chemical industry 15 per cent, and the motor industry 13.5 per cent.

Japanese companies have both the means and the incentive to spend. After three years of high profits they have built up substantial liquid reserves. One indication of the size of these reserves came in a report this week that 32 companies each had net income from treasury operations last year in excess of Y100bn ($65m). For them, decisions on capital spending projects are not going to be held up by worries about interest rate movements or the ability to raise new capital on the stock market. On the other hand they are worried about Japan's extremely tight labour market and so are eager to step up spending on automation. The Industrial Bank of Japan (IBJ) estimates that 60 to 70 per cent of capital spending budgets this year will be spent on labour-saving projects or on developing new products.

The economy is also benefiting from a sharp recovery in consumer spending. Wage rates are likely to rise by nearly 6 per cent this year, while the inflation rate will probably end up less than 2.5 per cent. Income tax reductions introduced last year will also come through, leading to real income gains of about 3 per cent. A similar rise last year was virtually wiped out by the new consumption tax and retail sales suffered.

Last year department and supermarket sales were up only 2.8 per cent and 5.1 per cent respectively, but IBJ's forecasts this year are for a combined rise of nearly 9 per cent. Demand for consumer durables is also strong, reflecting the trend in affluent Japan for cars, televisions and the like to become an individual's goods rather than the family's. Mr Naoya Takebe, senior deputy manager of IBJ's industrial research department, admits sheepishly that there are five televisions in his home.

All this provides a further boost for the broad range of consumer, capital goods, construction and service industries, most of which are already running at a brisk pace. The question that then arises is whether the Japanese economy can carry on at such a fast clip without encountering serious inflation. Debate on this subject has reached rare levels of passion in recent months, with Bank of Japan and Ministry of Finance officials publicly expressing opposing views on the contribution of property price inflation to overall inflation.

For some, the rise of the consumer price inflation rate from about 0.7 per cent to 2.5 per cent in the past year is already a dangerous development. Others find it remarkable that the weakening of the yen has not caused more damage. Import inflation reached 13.3 per cent in April at the wholesale level, but most of it is being absorbed. Profits of the electric utilities dropped last year because of sharply higher oil import bills but, for the time being at least, there is not the slightest chance that the Government will allow the utilities to pass on that cost increase to their customers.

Also, even though importers of capital and consumer goods are hurting from the weaker yen, they are so excited by the potential of the now fairly open Japanese market that they will stick with it. And that will act as a brake on any temptation domestic manufacturers might have to raise their prices.

The lack of wage push inflation remains one of the great mysteries of the Japanese economy, especially at a time when profits are high and labour shortages are widespread. But the spring wage negotiation round ended with average increases of only 5.9 per cent, and there are no signs of discontent among workers as the holiday season approaches. Traditional strong loyalty to the firm and the weakness of the trade union structure helps to explain this passivity as does the fact that 40 years of moderation have produced steady gains in real earnings for most Japanese. But it is nevertheless surprising that recent trends towards a widening in earnings differentials and the erosion of old loyalties have not yet begun to pollute the industrial relations climate.

Thus, the Bank of Japan is having a hard time whipping up general anxiety about inflation. The high rate of money supply growth worries some people, but others put it down mainly to distortions caused by the partially deregulated state of the country's financial markets. For example, as long as big corporations can make easy profits by issuing deregulated commercial paper and putting the proceeds on regulated deposit at the bank, money supply figures are not going to be reliable.

The outlook for the country's external balances has the marks of a bigger dilemma. By any measure, Japan has achieved substantial progress in the past three years in restructuring its economy to be less dependent on exports and more reliant on domestic demand. The current account surplus has tumbled from $87bn in 1987 to $57bn last year and is now running slightly under 2 per cent of GNP, compared with more than 4 per cent in 1986. Over the same period, the trade surplus fell from $96.4bn to $76.9bn.

Until recently, there was widespread confidence that the so-called adjustment process would continue, aided by a number of special factors. For example, it is now generally acknowledged that the Ministry of International Trade and Industry is leaning heavily on Japanese companies to cut their exports to, and boost their imports from, the US. Many companies have gone so far as to set and publish import targets for the next few years. Also, the build-up of overseas production capacity by Japanese companies is lowering direct exports. In the US, several transplant car factories have come on stream recently and, at a time when the US car market is weak, the companies are eager to get their operating rates up quickly and so have been cutting exports from Japan.

These trends have been showing up clearly in the trade figures. In April the merchandise trade surplus with the US tumbled 46.2 per cent to $2.45bn, as exports fell 15.1 per cent to $6.7bn and imports rose 26.8 per cent to $4.3bn. The surplus with the European Community was down by more than a third to $1.4bn, as a result of exports down 0.2 per cent to $4.2bn and imports surging 41.8 per cent to $2.7bn.

However, the overall underlying trend is less encouraging. On a seasonally adjusted basis, total export volumes have been rising since the beginning of the year, and many economists believe this trend will continue as long as the yen remains weak.

Also, Japan's trade does not begin and end with the US and the EC. So far this year, its trade surpluses with east Asian countries have been growing fast. In the first quarter, its surpluses with both Korea and Taiwan were up by 23 per cent. Exports to Thailand were up by a third and to Singapore by a fifth. This is not a helpful tendency either for Japan, which is trying hard to be a good neighbour in the region, or for the developing countries themselves, or for US and European companies trying to hang on to markets in these countries.

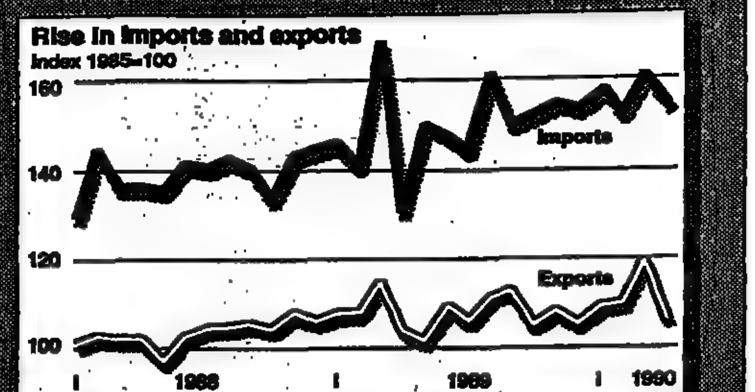
The Japanese authorities can be forgiven for being a bit bemused by these trends and reactions to them. On the one hand, they know that a weaker yen pushes up exports and makes trade partners unhappy, but they have also seen that a stronger yen makes it easier for Japanese investors to buy overseas trophy assets, such as the Rockefeller Centre, which leads to frictions of a different kind. Thus, they seem to have been content to sit back and let the US make the running on exchange rate policy.

They have also been surprised by the debate that has suddenly emerged over the value of their current account surpluses. According to some, including a recent study by the International Monetary Fund, the surplus is a good thing because it provides a source of capital for eastern Europe and other needy countries. Others, such as the Japan Association of Corporate Executives (Keizai Doyukai), retort that reducing the surplus must remain a priority to prevent the strengthening of protectionism and regionalism abroad.

Some economists are now saying that it does not matter if the current account surplus does not decline any more in absolute terms. As long as it stays stable, it will fall to about 1 per cent of GNP by 1995 which, they think, is sustainable.

Whatever happens, it is difficult to foresee anything taking place that will throw the Japanese economy seriously off course in the near future. It has demonstrated extraordinary resilience in the past four years, having absorbed four fairly severe shocks – the yen revaluation in 1987, the worldwide stock market crash in October 1987, an internal political crisis last year and this year's local stock market fall – without losing momentum.

To the superstitious Japanese, four is an unlucky number, and some may fear that things will soon come unstuck. But it would probably be wiser to assume that the Japanese economy will continue to be the best performer among the industrialised countries for some time.



Capital investment as a percentage of GNP

	Japan	US	W Germany	Canada	UK	S Korea
1980	[illegible]	11.9	[illegible]	14.4	8.1	25.1
1981	[illegible]	12.2	[illegible]	15.7	7.7	23.6
1982	[illegible]	11.6	[illegible]	14.4	8.2	24.8
1983	[illegible]	11.0	[illegible]	13.1	7.8	25.7
1984	[illegible]	12.5	[illegible]	12.0	8.5	26.8
1985	[illegible]	12.5	[illegible]	13.0	9.2	26.7
1986	[illegible]	11.8	12.1	14.0	9.5	27.2
1987	[illegible]	11.8	[illegible]	15.9	9.9	28.1
1988	21.1	12.3	[illegible]	16.0	10.0	28.0
1989	23.2	11.7	[illegible]	15.9	10.2	28.6

1989 figures are annualised average based on 1st six months. Source: Deutsche Bank

OBSERVER

Beaujolais delayed

■ Money and datelines being what they are, Japan has been able to claim several "firsts" in recent years. From today, the Japanese are now the first to read the Financial Times. This year, however, they are likely to be in trouble with a more accustomed first: the uncorking of beaujolais nouveau many hours ahead of the European competition.

The November rush to the new Tokyo International Airport at Narita has become a ritual, with special trains overflowing with drinkers, nearby hotels booked for beaujolais parties, and importers prospering from prices three times higher than those paid by US consumers. But this time a more solemn ritual will get in the way: the formal enthronement of Emperor Akihito.

Importers explained yesterday that the enthronement ceremony, or "daijosai," presents two problems. Visiting foreign dignitaries are likely to fill the landing slots generally reserved for beaujolais charter aircraft, and wild beaujolais parties are not in keeping with the solemnity of the occasion.

The enthronement is scheduled for November 12 and the beaujolais was supposed to start flowing from November 15. A spokesman for Suntory, the brewer and wine importer, said yesterday that B Day was likely to be postponed to November 22.

The delay is not expected to slow consumption, which doubled in each of the last two years and should rise another 20 per cent this year.

Taxi cards

■ New departure in credit cards: in future you will be able to use them to pay for taxi rides. Not just any old card, but a taxi charge card. The practice exists in Australia, but is believed to be new to Europe. The service is being launched in London tomorrow by Computer Cab, which already specialises in taxi payments by account. Cabcharge cards will be inserted into a machine at the end of a journey, and the bill will come at the end of the month.

Derby double

■ Beckhampton House, nestling in the Wiltshire Downs off the A4 past Marlborough, is famed in the annals of the turf. But it had not sent out a Derby winner for half a century until Sunday, when Sanglamore, ridden by champion jockey Pat Eddery, won the Prix du Jockey Club, the French Derby, at Chantilly.

The horse is in the charge of a first season trainer, Roger Charlton, a 40-year-old former stockbroker who took over Beckhampton when his mentor, Jeremy Tree, retired last year.

Charlton said yesterday: "I do come from a racing background. I went into the City to make a bit of money to be able to afford to do what I really wanted to do.

"I was with the firm of W.I. Carr, and I served for two years in Hong Kong, then joined the London desk. In 1974 I took a sabbatical, and was able to confirm that racing was what I really wanted to do. I made the break in 1978."

His everyday reading is the Sporting Life, but Charlton says he keeps in touch with the world of business by reading the Financial Times on Saturdays.

Sanglamore is owned by a Saudi Prince, Khalid Abdulla, a banker who has invested many millions of pounds in British racing in the last dozen years. One effect of the win on Sunday has been to reduce the price of Quest for Fame in tomorrow's Derby at Epsom, one of the most open for years. They have the same trainer, the same jockey and the same owner. Such a double has not been seen for 40 years.

"Does this mean the Monster Raving Loony Party will move to the centre?"

Ever Ready

■ We must, incidentally, learn to refer to the English Derby as the Ever Ready Derby – after the sponsor. The prize money has been increased to £600,000, making it a $1m race for the first time. Ever Ready says that nearly 18m people will see it on television in Japan, and for the first time it will be shown live at Happy Valley race course in Hong Kong.

Rentapicture

■ Ryoei Saito, the Japanese industrialist who recently spent Y25bn (£98m) paying record prices for a Van Gogh and a Renoir, boasted he would have bid any amount. Money was no object.

Saito, the 74-year-old chairman of Daishowa Paper, Japan's second largest paper maker, has not always found it so easy to fund his passion for fine art. In 1981 the company founded by his father was in such dire straits that the family turned to Sumitomo Bank for emergency loans.

Sumitomo agreed, but forced Saito to contribute to the company's rescue by selling part of his art collection. A furious Saito, who had owned some of the works for more than 30 years, never forgave the bank. He dispensed with Sumitomo in 1986, as soon as he no longer needed its money.

The Van Gogh and Renoir were both bought out of Saito's personal fortune, estimated at more than Y500bn. Nevertheless, some of the 5,000 employees of Daishowa Paper are now grumbling that he should have handed out the money in special bonuses as reward for the workers' loyalty during Daishowa's difficult years. They calculate they would have received Y5m each.

Despite the latest buying spree, Japan is short of western art. Public collections are few and far between. Most Japanese are unlikely to see Saito's latest purchases until he donates them to a museum, possibly in 10 years' time.

Those who want to look at modern art, but cannot afford to buy, are increasingly turning to art rental services which charge between Y2,000 and Y10,000 a month for a picture. Art Rental Lease System, the largest operator, has works by Salvador Dali and others in its portfolio. Some 45 per cent of the clients are restaurants and cafés; 30 per cent are companies and 25 per cent private individuals. Most customers prefer lithographs to oils or watercolours because they are cheaper.

Of course

■ "What is 'The average man'?" is the title of a talk advertised at a Sussex club. To this someone has added: "What the average man considers himself superior to."

Raymond Snoddy on the newspaper's decision to print in Tokyo

Eastern promise for the FT

Mr Setsuo Mizutani, right, and Mr Nobuyuki Miura, of Chiyoda Sogyo, with FT copies

or years two Japanese have turned up every evening at the printing of the Financial Times in ...n to get early copies of ...st edition off the presses ...d the latest stories by ...le to Tokyo.

...ink those two gentleman ...ow be out of a job," Mr ... Palmer, chief executive ... Financial Times says ...atisfaction.

...n today the FT will ...e the first British newspa... to print in Japan – an ...l presaged by a Japanese ...t on the newspaper's ...ising theme: No FT – ...mment. In this case col...ge advertisements have ...ed Japanese theatrical ... with the copyline: No Noh Comment.

...chasers of the paper in ... will get their copies ... anyone else in the ... Facsimiles of the com...pages of the first edition ...FT will be sent by satel... Chiyoda Sogyo, a Tokyo ...g company. The pages ...rive by 5.30am local time ...mer and 6.30am in win...d the completed paper ... on the streets and on ...s' desks by 8am – eight ... before they reach read... the UK and two days ... than they used to get to ...

...days when there are ...ive stories about take...ids or technical innova... Japanese readers will ...ly be the first to know, ...gh the FT is available ...nically to paying cus... on computer screens ...idnight UK time.

...n will get unchanged ... of the international edi... the paper – unchanged ... one respect. Part of the ...age contents panel will ... Japanese to alert Japa...eaders to the main sto...at might particularly ...t them.

...initial Tokyo print run ... more than 7,000 copies, ...th those copies will also ...other Far East destina...including Hong Kong, ...ore, Malaysia, Thailand, ... Korea and Australia.

...nese readers will be ...red in terms of the size ... investment deployed to ...them. At the moment ...,000 copies of the FT are ...ily in Japan. The paper ...be disappointed, execu...ay, if this figure were ...double within a year. ...will cost more than £3m a year to transmit, print and distribute in Tokyo. On the simplest level each extra sale in the first year could end up costing something approaching £1,000, although advertising revenue, not circulation, provides the economic rationale for the venture.

"We are not doing it out of pride. We are not doing it for prestige. We are doing it for solid commercial reasons," Mr Palmer says of the venture.

These reasons include the fact that Japan is one of the world's top three financial centres and its most dynamic industrial centre. Japan is already the second-largest non-UK source of advertising revenue for the paper after the US, and advertising income in turn accounts for 80 per cent of the FT's revenues.

An increase of a third in the FT's advertising revenue in Japan will virtually pay for the Tokyo project in a year. "Even if we are very, very successful we are not dealing in telephone directory circulation figures. We are dealing with small but absolutely crucial numbers to us," says Mr Palmer.

The European market is still at the centre of the FT's expansion strategy and a recent independent European Businessman Readership survey showed the extent of the paper's European penetration. Last year on average, according to the survey, 20 per cent of western Europe's senior businessmen read the Financial Times. By comparison the figures for the International Herald Tribune and the Wall Street Journal/Europe were 4 per cent each.

For the FT the commercial logic of going to Japan – as was the case when the paper started printing in the US – is to make sure, first, that the local business and financial élites are thoroughly familiar with the paper. As a result, the paper hopes that when such businessmen are planning an advertising campaign aimed at the pan-European market they will chose the FT as the vehicle.

Before the IHT started printing in Japan in 1987 it was selling 2,000 copies a day there. Mr Lee Huebner, its publisher, is very happy with progress. "We have more than doubled our circulation to about 5,000," says Mr Huebner, who is just as interested in the circulation increase as the possibility of extra advertising revenue. The extra sales in Japan have helped to take the IHT's worldwide circulation above 200,000.

The Asian Wall Street Journal, which began printing in Tokyo in June 1987, has also increased its circulation as a result. Before going there its daily sale was 4,300. The figure now is 6,700 plus a small number of additional copies of the US edition which are still shipped in.

The Asian Wall Street Journal, founded in 1976, has a total circulation of more than 39,000. It printed first in Hong Kong and then Singapore before adding Tokyo. Mr Michael Wilson, publisher of the paper, says he does not see the arrival of the FT as competition. In the emerging global market people will want more than one source of international news and more than one perspective.

The Japanese move is the latest phase in the internationalisation of the FT which began with printing in Frankfurt in 1979. At a time when the paper was making less than £3m a year profit £3m was invested in the Frankfurt project, an investment that took the paper five or six years to absorb. In 1985 the second overseas printing site was opened in New Jersey to serve the US. At the time the FT had a daily sale in the US of 5,500: now it is 25,000.

A third print centre, at Roubaix in France, was added in 1988 to relieve the pressure on Frankfurt. Not enough copies could be turned out in the first hour at the German plant to serve both Paris and Zurich by road in time for early-morning distribution. After the addition of printing at Roubaix the early part of the Frankfurt print run could be devoted to supplying the Swiss market, thereby delaying the need for a separate Swiss printing plant.

In the past decade the drive to turn the FT into an increasingly global newspaper has had a marked cumulative effect on the paper's circulation. In 1979, the FT sold 145,863 copies in the UK plus 35,815 overseas – 14 per cent of the total of 181,678. Between last November and this April the UK figure was 195,149 with international sales of 93,943 – 33 per cent of the total.

If the Japanese venture is a success the next steps will probably be to start printing the paper in Hong Kong, followed by Singapore, says Mr Palmer. By the year 2000 Geneva, Chicago and Sydney could have joined the list.

FOREIGN AFFAIRS

Adding up the security equation

Jurek Martin on whether east Asia should build a new military framework for the region

It is, to put it mildly, paradoxical that in the part of the world, east Asia, that has seen most of the big wars of the past 40 years and is still stuck with a number of nasty intractable problems, nobody now seems to take the question of regional military power very seriously.

This was an observation made at the Ditchley Park international conference centre in Oxfordshire last weekend during a discussion on the growing economic power and influence of east Asia. It is a statement that is open to challenge – and one which might not meet with universal approval in Tokyo or in Singapore – but in its essentials it is not far off the mark.

It is indeed one of the curiosities of the region that it has achieved all it has, especially in economic fields, without any *of the formal multilateral* structures which Europe, in particular, and the United States, to a degree, have found so valuable in the postwar years. There is no east Asian common market or free trade area; there is still no definable yen zone; at the political level, the only regional organisation intermittently in evidence is the Association of South-East Asian Nations (Asean) and even its most ardent fans would hardly claim for it a distinctive role.

At the security level, on the non-communist side, there have been five agreements of consequence, all forged in the 1950s as the cold war became seriously hot. Of these, the South-East Asian Treaty Organisation (Seato) died in the 1970s and Anzus is not far off obsolescence. The other three, bilateral US agreements with Japan, South Korea and the Philippines, certainly survive but are also susceptible to change in the near future. The US has already announced that it plans a 10 per cent reduction of its troop presence in the region and it is reasonable to assume this is the thin end of the wedge.

All of which tends to beg the question of whether, just as Europe seeks to design, with US and possibly Soviet assistance, a new security architecture for itself, east Asia should go down the same path. The thought is not new, but the equations which prompted it have changed.

Nothing symbolises this better than the meeting in San Francisco between President Gorbachev and President Roh Tae Woo of South Korea. If it has been true that the tumultuous events in the Soviet Union and eastern Europe have had a necessarily limited impact on east Asia, the very notion of a Soviet president talking to a South Korean *leader on American soil and without the apparent approval of the regime in Pyongyang* demonstrates the extent to which the old fixed order has changed.

Proponents of the need for some form of Asian security conference, perhaps along the lines of the CSCE in Europe, argue that there is already a growing network of informal contacts on security issues between the western alliance, Japan, and, to a lesser extent, some other countries in Asia. Australia tries, in a number of ways, to push the cause. So did President Gorbachev, in his Vladivostok speech in 1986. What was unacceptable from the Soviet leader then is subject to much less critical and suspicious scrutiny these days.

The bottom line is that Japan does not want to be seen to be assuming a leading regional security role. If it senses that it has become a role model, it is in the economic and commercial sphere. If that has been made partly possible by underspending on defence – so be it

The case for the prosecution of this course rests on the assumption that, with China out of the game for the foreseeable future and with the Soviet Union consumed with its own affairs and those of eastern Europe, such an initiative would have to come from either the US or Japan, as the region's dominant powers. It is at least possible that the US would entertain the idea; it does, after all, consistently talk of more equitable burden-sharing by its friends and allies and it is going to reduce greatly its military presence in Asia.

Not so Japan; there is not a fragment of evidence that Japan at this stage is interested. *While recognising that* the component parts of its security treaty with the US may have to change, it clearly does not want it to be so downgraded in importance that an alternative multilateral framework needs consideration.

There are any number of reasons for the Japanese position and, added up, they make a lot of sense. The bottom line is that Japan does not want to be seen to be assuming a leading regional security role. If it senses that it has become a role model for its neighbours, then it is in the economic and commercial sphere. If that has been made partly possible by underspending on defence – a luxury which, for example, South Korea has not been granted – then so be it. In any case, in an era where the whole world is in pursuit of the peace dividend, Japan can hardly be seen to be going in the opposite direction.

Second, hackneyed, but still important, regional history does not work in Japan's favour. Earlier this year, President Lee Kuan Yew of Singapore, who has a memory, used the Davos forum to urge Europeans not to leave Asia to the mercy of Japanese. More recently, Emperor Akihito apologised, as his father had done, for the excesses of Japanese colonisation of Korea from 1910-45. If he ever goes to China, which he probably will within the next two years, he will undoubtedly do the same for the Nanjing massacre (though he may not mention it by name).

Third, Japan has become almost as comfortable in a relationship of suspicious indifference to the Soviet Union as it has with the realities of its security treaty with the US. Mr Gorbachev may well go to Tokyo next year and is perfectly capable of offering to give back the four disputed northern Kurile islands (that is, if he does not feel that giving up territory would send the wrong message to the Baltics et al). But even if he does, the current Japanese predisposition, graphically explained at Ditchley, would be to play any negotiations very long.

And just in case Japan might waver in this respect, the US is *still not above issuing a caution*. Two months ago, Mr Michael Armacost, the US Ambassador in Tokyo, agreed that the Soviet Union might be preoccupied with internal and western affairs. But he went on: "It could also be based on this calculus; by concentrating on domestic priorities and external relationships with western Europe and the United States, it can deepen Japan's sense of isolation, thereby stimulating a decision to relax the linkage between resolution of the Northern Territories issue and economic co-operation. These motives are not mutually exclusive."

Finally, and not necessarily contradictorily, the Japanese are not above wondering why a new security framework is needed when the threat is not so apparent. It is a fair argument. Nato and the Warsaw Pact had a raison d'être in each other. One Ditchley panel concluded that, depending on the country concerned, the threats might be perceived as coming from the Soviet Union, North Korea, China, Japan, Vietnam, Indonesia or India. But it also said that the risks of conflict were lower than at any time since the last war. It is tough to design a security framework with so many variables and such little fear.

So Japan will almost certainly sit tight and wait and continue, above all, to try and manage the US relationship. It is a far cry from the first two postwar decades of the marriage, when, as Mr Chalmers Johnson, the American Japanologist, puts it: "American policy toward Japan was based on the proposition that Japan had great strategic significance but only minor economic significance." Just because the boot is on the other foot does not mean that it is unwearable.

LETTERS

...nsumer power and international airlines

...r Paul Seabright.

...t is encouraging that Sir ...Marshall (Letters, June ...ves in the power of the ...er in the airline industry ... vote with his or her ...

...mably he means more ...at dissatisfied passen...n always choose to walk ... destination. The ability ...llers to choose between ...ly competing services ...ly what is threatened ...ances between previ...ompeting carriers, as it ...he present system of ...ion management.

...irlines are not intrinsi...desirable and I did not ...s much in my article. ... is their bigness intrin... desirable and, if it is ... a justification for anti...tive practices, the trav...l be very badly served. ...nately, as Sir Colin ...ut, air transport "is a worldwide business." There are therefore all the more opportunities for British Airways to seek strategic alliances that do not diminish competition and allow it to use its formidable expertise in the interests of better services and lower fares. And there is all the less reason for the rest of us to suffer alliances that do.

Paul Seabright,
Director of Studies in Economics,
Churchill College,
Cambridge

From Mr Georges Gutelman.

Sir, We note with some bemusement the protestations of British Airways' Chief Executive over Paul Seabright's warning ("Flying in the face of facts," May 30) that the traditional flag carriers in Europe are collaborating to steal the Euro-bacon before their governments (some of which still own their national carriers) finally agree to unlimited market access for private competitors like ourselves (vaguely promised for 1993).

Sir Colin treats us to the now-familiar BA endorsement of free and open competition, and invokes the power of the consumer "to vote with his or her feet" as the ultimate guarantee against abuse by the big airlines.

However, the Belgian parliament has just voted a new air transport law which denies TEA, a significant Belgian carrier based at Brussels, the right to compete with Sabena World Airlines from the Brussels hub on routes between Brussels and Europe's other major airports.

These routes are by far the most lucrative, and are dominated by the traditional carriers through bilateral arrangements which amount to price and service cartels.

Will Sir Colin kindly explain how the consumer can "vote with his or her feet" on these routes to avoid the notoriously high fares which the big carriers uniformly impose if independents like ourselves are denied the right to compete?

Will he also be so kind as to confirm that BA, now a 20 per cent shareholder in Sabena World Airlines and Sabena's best hope of avoiding financial disaster, has no objection to allowing TEA to compete from Brussels on these important European routes, that BA has exerted no pressure on the Belgian Government or Sabena to keep us from doing so and that, in keeping with its principles, BA supports our efforts to provide consumer choice?

Georges Gutelman,
President,
Trans European Airways,
Melsbroek, Belgium

...ico's economy: checking facts and sources

...r José Juan de Olloqui.

... Christopher Whalen ... May 18) makes vari... misleading assertions ...e Mexican economy to ... I feel compelled to ...

..., Mr Whalen (or his ...) claims that inflation ...o is nearly 30 per cent ...g. Mr Whalen must be ... to the rates registered ...early part of the year ...any public sector price ...s and wage settlements ...ice. Rates have been ... steadily since then – ...ualised rate for April, ...ple, was 20 per cent.

...rop in inflation is not ...uct of "wage and price ..." but the result of ...discipline in public ... and a voluntary, con...ffort between labour, ... and government to ... price increases. This ...nt (known as the ...hich was due to expire ...has just been extended ...nuary next year and ...ows further decreases ...te of inflation.

...halen's sources also ...im that the Mexican ...vervalued by 10-20 per ... result of the Govern...politically motivated ...ary policies designed ...se food and consumer ... This demonstrates ...gnorance of the adjust...orts which have been ...en over the last eight years to transform Mexico from a state-dominated, protected economy into an open one with steadily decreasing government participation by virtue of a wide-ranging privatisation programme. Tax revenues have increased and subsidies have been reduced: Mexico is currently running a budget surplus of 7 per cent of gross domestic product before interest payments.

Regarding Mr Whalen's comments on domestic interest rates, he seems to be missing the point entirely in terms of the overall trend over the last year. Interest rates have decreased from around 57 per cent to 36 per cent and are still dropping, as a consequence of an increasingly bullish outlook for the economy. Capital has been and continues to be repatriated despite the downward trend in interest rates.

Mr Whalen's forecasts for Mexico's current account deficit in 1990 and his estimates of international reserves are inexplicable. The general forecast from both governmental and non-governmental sources is for a lower deficit (about \$4.5bn) this year than in 1989 (\$5.4bn) – his \$7bn is widely off the mark. At the same time, Mexico's reserve position has been increasing. The latest figures from the central bank report a level of \$6.9bn (not \$4bn as Mr Whalen suggests) for end-1989, which is an increase over the prior year.

The performance of the bourse in Mexico City over the past year has indeed been remarkable. Mr Whalen is sceptical of the underpinnings of the boom, for reasons completely unrelated to such fundamentals as price/earnings ratios, market versus book values or the economic outlook. Instead, he relies on a misguided expectation regarding the evolution of the peso.

In fact, most of Mr Whalen's uncertainty about investing in Mexico revolves around a bleak forecast for the peso. I would like to point out that the recently renovated Pact incorporates a reduction in the average rate of slippage for the peso/dollar rate from 1 peso per day to 80 cents. Again, the underpinnings for this are an expected decrease in the rate of inflation and a constantly improving outlook for public finances and the economy.

I agree with Mr Whalen on one fundamental point; to understand the appealing consistency of Mexico's stock exchange, it is necessary to take a good look at all the facts – and an especially hard look at their source.

José Juan de Olloqui,
Adviser to the Undersecretary for International Financial Affairs,
Ministry of Finance and Public Credit,
Mexico

PLO request for observers

From Mr A.M. Apostolou.

Sir, The Palestine Liberation Organisation's request to have United Nations observers sent to the Occupied Territories is curious given that *de facto* such observers already exist.

In February 1988 UNRWA hired more than a score of Refugee Affairs Officers, part of whose remit is to observe and report on the human rights situation in the Occupied Territories. While these RAOs have not succeeded in effecting great improvements, they provide a useful back-up service and give a degree of psychological security to the otherwise isolated Palestinians. Better still they are civilians and do not have the trappings of a peace-keeping force, which the Israelis will not countenance.

The November 1989 Israeli complaint to UNRWA about the RAOs notwithstanding, the most pragmatic way forward is to provide UNRWA with the funds to hire more. With assurances to Israel that henceforth the RAOs would liaise more closely with the occupation authorities to minimise friction, the RAOs would still be able to intervene on behalf of the Palestinians without reinforcing the Israeli perception of them as hostile meddlers.

Andrew Michael Apostolou,
Department of Philosophy, LSE,
Houghton Street, WC2

FINANCIAL TIMES
Tuesday June 5 1990

Iran, a revolution going nowhere

Scheherazade Daneshkhu looks at what went wrong after Khomeini

TENS OF thousands of breast-beating Iranians descended on Ayatollah Khomeini's burial ground near Tehran yesterday to hear his successor Ayatollah Ali Khamenei condemn the US as "the pinnacle of sedition and corruption."

The events were the climax of a week of mourning ceremonies to mark the first anniversary of Khomeini's death. Construction workers have been busy around the shrine, and it is thought that the Government is planning to build a seminary large enough to rival Khomeini's own Fayziyeh seminary in the holy city of Qom.

Iran's rulers, however, are keenly aware that the revolution, which burst from the seminaries on to the world stage with such force more than 11 years ago, has been going nowhere since its founder's death. This is despite the fact that the revolution has easily survived predictions by its opponents that it would be unable to outlive Khomeini.

Frenzied mourners reach out towards the Behesht-e Zahra cemetery outside Tehran yesterday as they observe the first anniversary of Ayatollah Ruhollah Khomeini's death

But the economic expectations of the wider population have been dashed in the process. President Hashemi Rafsanjani, once hailed as Iran's version of Soviet President Mikhail Gorbachev, has failed to restructure and restore the economy.

The price of food rises on a weekly and sometimes daily basis; a kilo of apricots costs 2,500 rials ($35) in a country famed by the 18th century traveller, Sir John Chardin, for producing a plentiful variety of the world's "best and finest fruits."

A shortage of housing is another serious problem and one which has been exacerbated by the relentless influx of rural families to the cities. Isfahan, the country's second city, held 500,000 before the revolution. It is now home to an estimated 2m to 3m people.

One man recounted how he delayed selling a piece of land in Tehran worth 110,000 rials a square metre last summer, until the autumn, when the price had risen to 250,000 rials. An Iranian-assembled Hillman Hunter car costs 10m rials (200 times the average monthly salary).

At a news conference in March, President Rafsanjani was asked why petrol rationing continued despite government promises to lift it. The irony for this oil-rich nation is that it does not have sufficient refining capacity to meet its needs and is obliged to import oil by-products.

Even the much publicised reconstruction of war-damaged areas to the west near the border with Iraq, dependent on domestic financing, was admitted by officials to be proceeding much too slowly. "Frankly speaking, the people's complaints were justified," said Mr Mehdi Karrubi, the radical Majlis speaker after a tour of the region.

Reports of unrest and food riots in the big cities have increased. Last month Khomeini's son Ahmad told Interior Ministry officials that society had become acutely sensitive. He urged the officials not to make promises they could not keep.

As the economy takes its toll on daily life and people tire themselves trying to make ends meet, political resignation has seeped in. One translator was told by his publisher not to bother with books on politics since they no longer sell.

Nevertheless, periodic attempts have been made by the only (barely) legal opposition party in the country. Last month, 90 doctors, lawyers, clerics and military officers linked to the Freedom Movement, whose leader, Mr Mehdi Bazargan, was the republic's first Prime Minister, signed a letter of protest to President Rafsanjani.

It said: "The freedom and security enshrined in the constitution has been trampled upon... None of the principles of freedom, justice and independence has been fulfilled." The signatories blamed the state of the economy more on mismanagement and corruption than on a shortage of income.

The stagnant economy is also a reflection of the paralysis in government. While Khomeini was alive, he acted as final arbiter in the many disputes over power and ideology and would not allow one political faction to triumph over the other. When Mr Rafsanjani became president, it was assumed he would guide the country firmly onto the path of economic reform and political pragmatism, if not moderation.

But despite some victories, mostly in the field of foreign policy, he has not overcome his hardline adversaries, who cling to the notion of Iran as an isolationist and revolutionary state.

The results have been administrative confusion and political stalemate. On a day-to-day level, this translates itself into the erratic behaviour of officials on the streets. "A month ago, during the fasting period, we were left alone," said one woman in a reference to Islamic dress codes. "Now they've suddenly taken it into their heads to stand on street corners and harass us about our clothes."

Many Iranians are convinced that whenever the Government starts talking to the west, the radicals are given leeway to crack down at home. For the first time in many months, officials are entering homes, examining property documents and ordering residents to present themselves or risk having their property confiscated by the Government.

Such unpredictable oscillations have become embedded within the system. For within the framework of the Islamic Republic, government is based on an uneasy alliance rather than a personal dictatorship.

Breaking this mould by creating a rift within the ruling group carries with it the danger of undermining the whole system. Forging an outward appearance of unity through consensus has given the Government its strength, but its weakness lies in its inability to confront the country's very real problems.

"We all thought after Khomeini died that Mr Rafsanjani will come along, shake things up and get them moving," said one businessman. "But we were wrong - he isn't as strong as we thought."

W Germany and France face EC legal action on UK beef

By Tim Dickson in Brussels and Bridget Bloom in London

WEST GERMANY and France appeared yesterday to have ignored the European Commission's call to revoke their bans on British beef and now face the prospect of legal action by Brussels tomorrow.

A deadline set by the Commission for the removal of the embargos – imposed in response to fears over bovine spongiform encephalopathy, or "mad cow disease" – passed yesterday evening without any response in Brussels from Paris or Bonn.

However, Britain will not retaliate against the French and West German governments for their ban on imported British beef, as has been demanded by UK farmers' leaders, Mr John Gummer, the UK Agriculture Minister, said.

Retaliation would not be in the spirit of free trade within the European Community, he said.

Mr Raymond MacSharry, the European Community Agriculture Commissioner, said that he would advise his colleagues to open EC legal proceedings at their routine midweek meeting. However, he also made clear that he expected the crisis to be resolved when EC farm ministers gather in Brussels for an emergency council meeting on Wednesday.

Mr Gummer said the issue went "to the heart of decision making in the Community." If individual countries felt they could throw aside Community decisions which were not to their advantage, very serious questions about the creation of the single European market would be raised, he said.

EC officials and diplomats are well aware that legal redress – under Article 30 of the Treaty of Rome, guaranteeing free trade – can be time-consuming. It would only culminate several months later with formal action in the European Court of Justice.

There is a "fast track" legal option for the Commission but a spokesman for Mr MacSharry said last night that this was not being considered.

Officials believe a meeting of the EC scientific veterinary committee tomorrow morning will be crucial. These experts – drawn from all 12 member states – have not considered the BSE question since January when they advised that banning British trade in live animals over six months and removing offals from exports of British beef were sufficient precautions for the EC.

Mr MacSharry's position is that no new evidence has been produced by France or Germany to justify going further – but his spokesman made clear that the Commission would continue to base its policy on the view of the experts on the committee.

Mr Gummer repeated that he believed both the French and German governments had acted to protect their own markets. At no point had they argued that their action fell under the clauses of the Treaty of Rome which allowed governments to take restrictive measures on grounds of public health.

Meanwhile, business at UK cattle auctions improved noticeably yesterday, apparently as a result of the EC decision to take unlimited quantities of beef into "intervention stores" at a guaranteed floor price.

THE LEX COLUMN

No volunteers for a B&C lifeboat

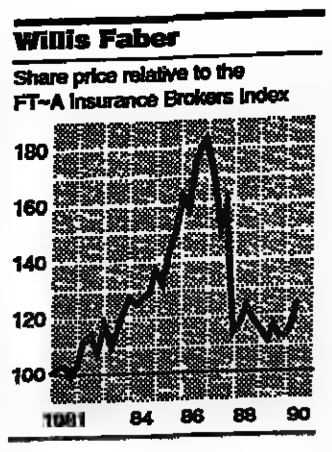
It is easy to get carried away with the question of who was finally responsible for pulling the plug on British & Commonwealth. The key fact is that there was a loss of confidence last week which precipitated a run on a UK merchant bank and that the authorities sat back and did nothing. Indeed, it could be argued that the Securities and Investment Board gave B&C an extra shove by requiring the firms it regulates to remove their investment funds from the bank. It is as if the authorities wanted really to rock the boat to see what happened.

Calling in the administrators to the parent of the B&C empire may mean that creditors stand to get far less of their £1bn back; but that was not yesterday's message from the shares of the companies most involved. More significant was the fact that the £300m of deposits in the merchant bank have been frozen. It is one thing for depositors to be penalised because they leave their money with a bank which is crooked or makes dud loans. It is quite another for short-term depositors in what appeared to be a perfectly well run bank to find that they cannot get their money back. It is the sort of action which gives an international financial centre a bad name.

The Bank of England rode to the rescue of Slater Walker and Johnson Matthey Bankers, so why not now? As the lender of last resort it would be certain to protect a clearing bank if it were ever to run into similar liquidity problems. The obvious difference is that BCMB's problems do not present a systemic risk to the financial structure. Despite that, the authorities might ask themselves whether they are sending the right signals in being seen to treat small banks less leniently than big ones.

Willis Faber

Share price relative to the FT-A Insurance Brokers Index



Willis/Corroon

The record of Transatlantic deals in people businesses such as insurance broking, advertising and banking is far from reassuring. So yesterday's 9 per cent drop in Willis Faber's shares on news of its marriage proposal with Corroon & Black, the fifth biggest US insurance broker, is a modest reaction – especially given the early problems Willis encountered with its 1987 takeover of Stewart Wrightson. The strategic reasons for tearing up a 100 year old relationship with Johnson & Higgins, in particular the need to reduce the group's over-dependence on a mature UK market, all sound sensible enough. Nevertheless, there are far more reasons for the Willis share price to fall rather than rise over the next few months.

Willis Faber's shareholders will benefit by not having to pay a premium for control of one of the better-run US insurance brokers. But Corroon & Black's earnings are falling, when Willis' profits are set to rise by around 25 per cent, so some dilution is unavoidable. The benefits of bigness in this business may yet prove to be illusory; and to win approval Willis Faber has had to make considerable management concessions. Finally, there are going to be an awful lot of Willis shares floating back to the UK over the next year. The City needs more convincing.

Hearts/Hibs

If ever there was an industry ripe for rationalisation, it must be football. The combination of overcapacity and high operating costs makes many clubs hopelessly uneconomic. The merger of clubs and their relocation to new, safer stadiums makes enormous sense. But try telling that to a loyal horde of football supporters; every merger yet suggested has met with bitter resistance.

In financial terms, the bid from Hearts for Hibernian is shrewdly judged; the latter's shares have performed dismally since flotation. The offer is conditional on only 76 per cent acceptances, which means that Hearts can do without the fans' 20 per cent holding; Inoco's 29 per cent stake is already committed. Potentially, there are juicy profits to be earned if Hibs' ground can be redeveloped. But none of this may matter. The Scottish League has to approve the deal and its members are unlikely to want to encourage contested bids in their industry. Nor will the League be eager to annoy its customers, the supporters. Mecca must wish that bingo players were so fanatical.

NFC

Workers at NFC yesterday received a sharp lesson in the risks of capitalism: the group's pre-tax profits increased only because of a cutback in their profit share. Avoiding a fall in the pre-tax figure at the full year will require further sacrifices. Suffering employees may be tempted to ask a few harsh questions of the management. It is clear that, despite the real improvements made since flotation, too much of the group's business is still highly volume-sensitive and subject to fierce competition. There was a tendency to rely on the dubious quality of property profits and the group should have sold Pickfords Travel at the profitable stage of the consumer cycle.

But the company is still moving in the right direction, increasing the value-added element of its turnover and its overseas exposure. The shares now languish on a prospective p/e of under 10; they will look a lot more attractive if interest rates fall.

UK economy

The evidence from yesterday's batch of UK economic statistics continues to be all one way. The final retail sales figure for April was revised upwards, from volume growth of 2.4 per cent year on year to 2.6 per cent. Meanwhile, new consumer credit in April was flat, which suggests that disposable income is rising fast enough for borrowing to be unnecessary.

It remains clear that lower interest rates cannot be justified on domestic grounds. For the authorities, it follows that the markets must be disabused of the idea that sterling is about to become a riskless investment. One good way would be to focus on the scope for devaluation within the ERM: but that would cast doubt on the ERM's efficacy as a counter-inflationary discipline. The market's belief in the faith-healing powers of the system looks more puzzling by the day.

Czech minister attacks economic strategy

By John Lloyd in Prague

A SENIOR Czech minister has attacked his Government's economic strategy, predicting a disaster with "galloping inflation" and "hundreds of thousands of unemployed."

Mr Valtr Komarek, a deputy prime minister who was recently relieved of his leadership of the government's economic team, has described the economic strategy as "naive".

His comments, made in an interview at the end of last week, have an added sharpness as the Czech election campaign winds up with the Civic Forum movement and its Slovakian sister group, Public against Violence, well ahead of rival parties.

The remarks are an attempt to establish a rallying point for left-wing critics of market-oriented reforms undertaken by ministers, chief among them Mr Vaclav Klaus, Finance Minister, and Mr Vladimir Dlouhy, Planning Minister.

This platform, likely to be adopted by many of the CF/PAV deputies after the election, will presage the development of a left-leaning group in the assembly which is likely to develop into a full party.

Some leading members of CF/PAV are already considering setting up a left-of-centre party during the forthcoming two-year parliamentary term.

CF/PAV has held together disparate trends by remaining a movement rather than a party. It intends to continue as a movement but is expected to evolve into at least two parties after the poll.

The development of a leftist group is made increasingly likely because the two non-communist leftwing parties now contesting the elections – the Socialists and the Social Democrats – are failing to poll above 5 per cent, the necessary level to qualify for seats in the two-chamber assembly. The Communists are likely to qualify, but will be treated as pariahs.

Aside from establishing a platform for the left, Mr Komarek's criticism of the present economic strategy is also notable for proposing an alternative to the "shock treatment" approach of the Poles.

Mr Komarek was deeply critical of the devaluation of the Czech crown to a commercial rate of 17 to the dollar and a tourist rate of about 30 crowns, and of proposals to devalue the commercial rate further to the level of the tourist rate. The strategy for devaluing the crown and raising prices was wrong for two reasons, according to Mr Komarek:

- Since most of the Czech economy is controlled by monopolies, and in many cases demand exceeds supply, floating prices will simply lead to increased profits for the monopolies;
- If prices float and set a high price in crowns for the dollar, exporters will accumulate large Czech currency sums with domestic banks. Companies able to export to the west – mostly exporters of raw materials – will make money.

But, Mr Komarek added, Czech manufacturers of refrigerators and washing machines, for example, would go bankrupt because they were incapable of exporting their goods and their energy and raw material costs would rise.

He also attacked the government strategy of raising prices – by an average 25 per cent – while paying a subsidy of about 170 crowns a month to compensate for the rises.

Although, he said, "we still have time to proceed sensibly," Mr Komarek condemned "rash measures" already taken. "Creating galloping inflation and allowing hundreds of businesses to go to the wall, creating hundreds of thousands of unemployed within a month, would be a real disaster.

"People would be disappointed by the economic reform. It would then be very difficult to muster any enthusiasm for reform ever again."

Interview conducted by Stanislav Holec of the East European Information Agency for the Financial Times

An anonymous telephone caller yesterday warned the Czechoslovakian authorities of another bomb attack, writes Leslie Colitt in Prague.

Mr Jan Urban, secretary general of the Civic Forum movement, said that an explosion last Saturday in a crowded Prague square and the latest threat were attempts to destabilise the political situation before Friday's first free elections since 1946.

Trump may sell assets

Continued from Page 1

and the New York Grand Hyatt hotel – which are believed to be showing positive cash flow.

He has also put the Trump Shuttle, the airline which operates flights between New York and Washington, up for sale. Aviation analysts consider it worth less than he paid for it.

Yesterday, the Trump Organisation, Mr Trump's private holding company, said: "Based upon the excellent asset values and long-term earnings potential, we are confident we will arrive at a mutually beneficial solution."

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
[illegible]				Madeira	S	[illegible]	[illegible]	Prague	F	19	66
[illegible]				Madrid	F	29	84	Reykjavik	R	[illegible]	[illegible]
[illegible]				Majorca	S	24	75	Rhodes		20	68
[illegible]				Malaga	F	27	81	Rio de Janeiro			
[illegible]				Malta	S	25	77	Rome	S	24	75
[illegible]				Manchester	F	14	57	Salzburg	F	[illegible]	[illegible]
[illegible]				Melbourne	C	14	57	S Francisco	S	[illegible]	[illegible]
[illegible]				Mexico City				Santiago			
[illegible]				Miami	S	27	81	Seoul	C	28	82
[illegible]				Milan	S	17	63	Singapore	F	32	90
[illegible]				Montreal	R	14	57	Stockholm	F	23	73
[illegible]				Moscow	C	[illegible]	[illegible]	Strasbourg	F	19	66
[illegible]				Munich	S	15	59	Sydney	S	17	63
[illegible]				Nairobi		–	–	Tangier	C	18	64
[illegible]				Naples	F	24	75	Tel Aviv	S	25	77
[illegible]				Nassau		–	–	Tenerife	F	23	73
[illegible]				Newcastle	C	14	57	Tokyo	F	23	73
[illegible]				New Delhi	S	39	102	Toronto	Dr	8	46
[illegible]				New York	F	22	72	Tunis	S	28	82
[illegible]				Nice	F	22	72	Valencia	S	26	79
[illegible]				Nicosia	S	22	72	Venice	C	17	63
[illegible]				Oporto	C	18	64	Vienna	C	19	66
[illegible]				Oslo	F	16	61	Warsaw	F	21	70
[illegible]				Paris	C	17	63	Washington	S	22	72
[illegible]				Perth		–	–	Wellington	S	15	59
[illegible]				Porto	B	19	66	Zurich	R	14	57

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

† Noon GMT temperatures

Soviet free market nearer as parliament approves new law

By Leyla Boulton in Moscow

THE SOVIET parliament last night approved an important law designed to bring enterprises one step closer to a genuine market place.

Called the "law on socialist enterprises" before deputies deleted the word socialist, it lays down uniform rights and obligations for all types of enterprises. These include:

- the right to set prices except where an enterprise enjoys a monopoly, in which case the Government may set prices;
- freedom to set wages and issue stocks and bonds;
- a mechanism to declare bankruptcy.

The law, which comes into force next January, covers state-owned conglomerates, collective farms, private co-operatives and joint ventures. It effectively supersedes and goes beyond 1987 legislation on state enterprises which sought to make each factory and farm accountable for its profits and losses.

"This guarantees the self-sufficiency of enterprises where the previous law only declared it," said Mr Yuri Blokhin, vice-chairman of the economic reforms committee of the Supreme Soviet (parliament).

Critics said, however, that its main merit was to make all enterprises, whether state-owned giants or small private co-operatives, equal before the law. But they attacked the details of the plan, saying it would make little difference to how enterprises operated in the Soviet Union.

Radical economists and western analysts said the law would have no real effect until the Government freed prices and reformed its centralised system of distributing raw materials. One member of the Government's economic reform commission, Mr Sergei Alexashenko, called the legislation half-baked because of its attempts to placate both radicals and conservatives. "Our political situation is very difficult and all the decisions that are advanced by the Government and parliament are palliatives, stuck between radical and conservative forces," he said.

The law needed complementary legislation spelling out practicalities - for instance, how the Government would deal with monopolies, and how bankruptcies would be handled.

Parliament is expected today to vote on a package of economic reforms involving steep price rises for many basic foods and consumer goods. The plans have been roundly criticised by both conservatives and radicals.

Ukrainian strikes, Page 3

FINANCIAL TIMES
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INSIDE

Wall Street debate for battle by proxy

Proxy fights, once a glamourless tool of corporate governance, have become one of the favourite weapons of Wall Street. They have enlivened the nearly moribund takeover scene, helping bidders overcome difficulties created by their targets' legal defences. But are proxy battles just the latest Wall Street fad or are they here to stay? Roderick Oram looks at the debate. Page 28

Continuity proves to be the best insurance policy

It has had four changes of ownership in almost as many years. Yet Fondiaria, Italy's fourth biggest insurer, has managed to flourish. It has done so largely through the continuity provided by Mr Alfonso Scarpa (left), general manager since 1982, and managing director since mid-1985. Haig Simonian looks at how Mr Scarpa has steered Fondiaria through its latest change in ownership – one that has come at the same time as a tax-inspired restructuring of the group. Page 26

NFC advances 12 per cent

NFC, formerly the National Freight Consortium, announced a 12 per cent rise in pre-tax profits for the half year to March 24. However, operating profits were down 3.6 per cent in what the company described as a generally difficult UK environment. The shares fell sharply on the news by 9p to 127p. Paul Abrahams reports. Page 32

Hungarian privatisation takes to the road

Ibusz, the Hungarian travel agency, tourism and financial services group, next week becomes the first privatisation by public offering in eastern Europe. Yesterday its international roadshow stopped in London on the second week of a tour that began in Budapest and will end in Vienna. Andrew Baxter reports. Page 30

Carmakers in the slow lane

European motor industry is suffering a market malaise. Most car companies' shares have underperformed their domestic market over the last year. Fears of eroding margins and stiffer competition have dampened investor enthusiasm; and there are few signs of any improvement in the near future, as the threat of increasing Japanese market share begins to bite. Antonia Sharpe reports. Back Page

Stake share ownership disclosure

A summary of Stock Exchange announcements of disclosures of holdings of between 3 per cent and 5 per cent in UK public companies will be run in the Financial Times throughout the week. Last Friday provisions of the Companies Act 1989 came into force requiring an investor to declare holdings above 3 per cent. Page 35

Market Statistics

Companies in this section

Chief price changes yesterday

...ORK ($)				
		Dowa Mining	1080	+ 80
		Ehara Audio	4100	+ 700
		Acom Elec	3650	+ 280
		Tokyo Kokai	1610	+ 130
		Tokyo Sokuhan	3350	+ 280
		Toyo Electric	1460	+ 100
		Japan Oil	1250	− 100
		Meiwa Winnet	3450	− 310
		Okaya Electric	1020	− 80
Frankfurt closed.				
...N (Pence)				
		Bank Org.	631	+ 28
		Rolls-Royce	229½	+ 5½
		Falls		
		GPG Inds.	234	− 10
		Brit. Aero	546	− 4
		Enterprise Oil	648	− 17
		Hillsdown	258	− 6
		Scot. & New.	334	− 6
		Tesco	223	− 6

Bankers point the finger as B&C crumbles

David Waller on the failed rescue

THE AIR of the City of London was thick with recrimination yesterday as bankers sought to apportion blame for the collapse of British & Commonwealth Holdings, the UK financial conglomerate.

Tempers flared as the bankers pointed accusatory fingers at the regulatory authorities and at each other, while the regulators pointed back at the banks.

Central to the debate was the sequence of events leading up to the Security & Investment Board's (SIB) unusual announcement late on Friday last week requiring all its member firms to withdraw deposits from the British & Commonwealth Merchant Bank (BCMB).

Once this announcement had been made, the fate of the B&C group as a whole was sealed and the appointment of administrators was only 48 hours away.

Troubles at BCMB began almost two months ago when shares in its parent were suspended.

At the time, the bank is believed to have been in fine financial fettle: well capitalised, with a loan book of £300m ($501m) fully provided against doubtful debts, supported by capital of £90m. There was no question that the bank suffered any liquidity problems.

In the aftermath of the suspension of B&C's shares, the merchant banking subsidiary began to suffer from so-called "reputational" fall-out. Liquidity suffered not because depositors started to withdraw their cash, but because bankers chose not to renew loan facilities when they came up for renegotiation. Steps were taken to avoid a potential crisis.

Approximately three to four weeks ago, bankers came together to discuss providing a standby facility for the merchant bank. The plan envisaged eight banks contributing £12.5m each – a total of £100m. Co-ordinating the discussions was Barclays Bank; others involved were the Midland Bank, Standard Chartered and Lloyds.

It was decided to take no final decision on the line of credit until shareholders had met to discuss the proposals put forward by S.G. Warburg for the resuscitation of the B&C group.

Discussions between the banks, and between the various regulatory bodies with an interest in the fate of the merchant bank, were revived at the beginning of last week.

It is now clear that the Bank of England played a major role in co-ordinating meetings last week, and that it failed in its objective of persuading the banks to back the stand-by facility.

The Bank's line now is that it is content to respect the commercial decisions taken by the bankers.

However, it clearly tried hard to persuade the banks that it was in their broader interest to save BCMB. Mr Eddie George, the Bank's deputy governor, hosted two sets of meetings.

The first were with representatives of the four regulatory bodies with responsibilities towards the banks' depositors under the Financial Services Act.

The second set of meetings were with senior representatives of the eight banks involved in the Barclays-led syndicate.

On Thursday, the Bank was able to report back to the four regulatory bodies. The message was simple: the banks had, for a variety of reasons, been unable to come to a unanimous decision to support the £100m facility.

What that meant in practice was that the Bank had been unable to persuade the banks to relieve BCMB's growing liquidity problems. A day later the SIB came out with its announcement, which in turn led to the appointment of administrators at the merchant bank and at the group.

The bankers' reasons for not backing the syndicate must have varied. Some were probably prepared to back the proposals if everyone else went along with them; others were more negative. They decided that it was to their greater commercial advantage to let administrators be appointed at both the group and its merchant banking subsidiary.

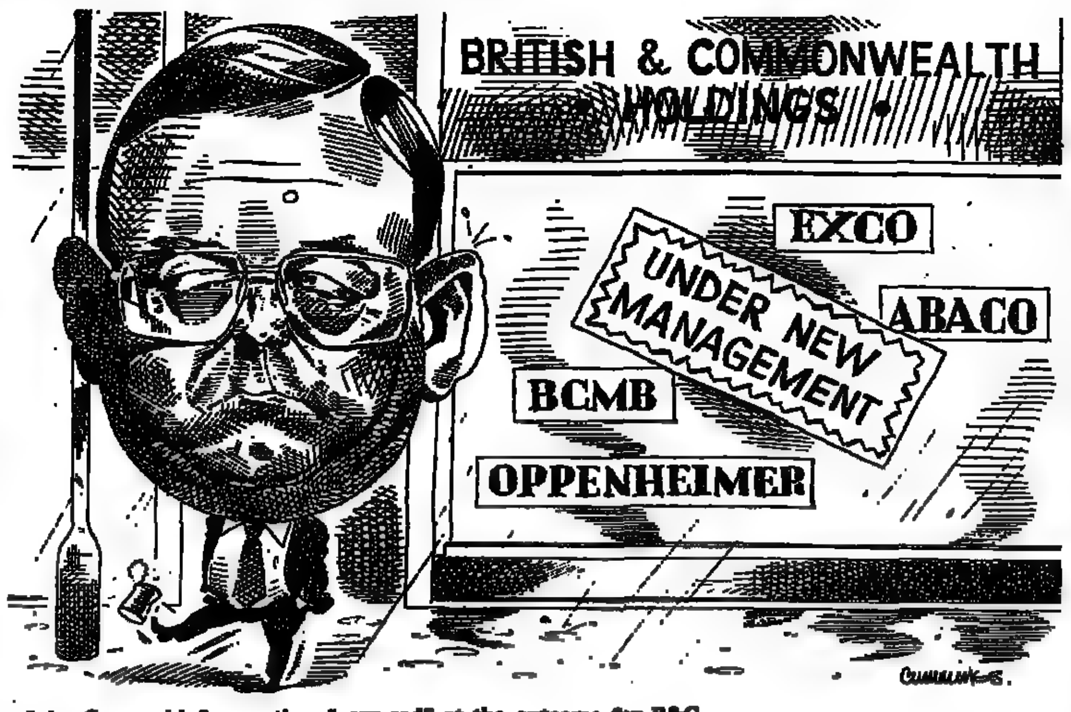
As one regulator observed yesterday: some of the banks realised that the appointment of administrators to the merchant bank would freeze its assets and liabilities.

This would preserve its liquidity position (not disastrous at this point) without requiring the banks to commit up to £100m to achieve virtually the same thing.

One clearing bank said yesterday that the reason why it had opted not to back the line of credit was because it was aware of the action the SIB was likely to take.

Both the Bank and the SIB hotly rebuffed this interpretation of events yesterday. "Without hesitation, it is absolutely untrue to say that we acted before it became absolutely clear that the talks had failed," the SIB said.

Creditors and shareholders in B&C will be watching how events unravel in the weeks to come. And it is likely that a wider public, taking in the banking community and the City at large, will watch for the outcome of this squabble between the banks and the regulators.



John Gunn, chief executive: "very sad" at the outcome for B&C

Nova sale boosts Italian LBOs

By Bernard Simon in Toronto and Haig Simonian in Milan

NOVA of Alberta, the Canadian energy and petrochemicals producer, has sold its Italian valve-making subsidiary in a deal which marks a substantial step forward in the growing Italian market for leveraged financial transactions.

Nova said it has agreed to sell its wholly-owned Grove Italia of Voghera for L121bn ($97m) to an investment group led by Sanpaolo Finance, the Milan-based merchant banking arm of Instituto Bancario San Paolo di Turino. Grove produces pipeline valves and flow control products.

While leveraged buy-outs have become increasingly familiar on the country's corporate scene, Sanpaolo says it is "one of the most important leveraged divestitures ever carried out in Italy."

Sanpaolo is taking a 31.75 per cent stake in the new venture, flanked by Arca Mercant and Cofilp, two smaller financial institutions, which will hold 15.87 per cent each.

Nova will retain a 31.75 per cent stake in the investment group, for which it will pay C$9m (US$7.7m).

By contrast, Grove Italia's management, led by chairman Mr Luigi Fiore, will begin with an opening 4.76 per cent holding. However, this stake "will considerably grow in the future as the set goals of the operation are reached," according to Sanpaolo.

The disposal will give Nova an after-tax gain of C$30m and further help it to lighten its heavy debt load.

Debt totalled C$3.7bn at the end of last year, but Nova has subsequently agreed to sell its prized Polysar rubber division to Bayer, the big West German chemicals group, for C$1.25bn.

Polysar is one of the world's leading producers of synthetic rubber. The deal is expected to cut Nova's debt to just above C$2bn and improve the debt-to-equity ratio of its plastics and petrochemicals division from 42 per cent to 70 per cent.

Grove is the first component to be sold from a C$500m parcel of assets put on the block by Nova in mid-1989.

Other parts of the package include a natural gas producer and a heavy truck manufacturer.

Group turnover for Grove Italia in the first four months of this year rose to L50bn, and the company forecasts sales of L158bn for the year.

Operating earnings to end-April amounted to L6bn.

Sale time will put valuations to the test

By Nikki Tait in London

BREAK-UP valuations for British & Commonwealth have been the subject for much speculation over the past few weeks. Now that some businesses may finally go up for fairly speedy sale, the number-crunching will be put to the test.

Yesterday the administrators were reluctant to specify precisely which operations might be auctioned. The aim of administration, they said, was to end up with a going concern – in short, a slimmed-down version of the existing group.

However, there is a general expectation that the disposals of Exco and the B&C Merchant Banking group – already formally announced – will proceed, and a deal more besides.

Forecasts as to what the particular parts of the group might fetch vary widely. Some groundwork was laid in the leaked estimates put forward by S.G. Warburg, B&C's unlucky advisers. The bankers suggested two different sets of figures, depending on whether the disposals were made as part of a B&C restructuring or whether they followed a move by the group into administration or liquidation.

Broadly, under restructuring, the hypothetical price-tag attached to Exco, B&C's money-broking business, stood at £230m ($384m). That would fall, Warburgs suggested, to around £100m under administration/liquidation.

Some independent analysts are not convinced. There have been suggestions of Japanese interest in the business – Nippon Tanshi, in particular – and Exco's chairman, Mr Richard Lacy, made clear yesterday that some form of management buy-out/consortium package would be pursued.

Estimates put on the sale value of Oppenheimer, the US fund management subsidiary, are even more controversial – a net £88m under the "going-concern" basis, suggested Warburgs, compared with only £10m under administration. The problem here is that, under US regulations, a change in control of a mutual fund operation could allow trustees to switch management contracts.

Whether administration counts as a change of control is a moot point. "On the basis of advice from US and British lawyers, we firmly believe that the administration process will not give cause to anyone to create a change in the management contract," the administrators said.

However, Oppenheimer's management announced management buy-out plans yesterday, with Morgan Stanley acting as investment banker.

The picture of BCMB group is also slightly blurred. It was announced that negotiations over the Stock Group, essentially the regional stockbroking interests, were under way with "a well-known British banking group", and should be concluded within 24 hours.

TSB, regarded as one of the most likely contenders to buy Stock Group, ruled itself out of the running, as did Lloyds Bank. NatWest Stockbrokers and Midland Bank also appeared unlikely bidders, while a Barclays' representative claimed to be unaware of any talks over Stock Group.

Assuming this deal goes ahead, however, it would leave the disposals of Provincial Bank and B&C Merchant Bank. The total package, suggested one analyst, might fetch about £70m, a figure roughly in line with the Warburgs' "liquidation" estimate.

After that come the professional services businesses, ranging from the Hampton estate agency operations to insurance broking. A number of these interests are thought likely to attract management bids, and estimates of the sale proceeds range between £100m and £150m.

The remaining assets are the development capital portfolio, put at £179m/£130m under the two Warburg scenarios, with analysts now pitching in the middle, and the property division, which B&C's advisers suggested could command £35m/£30m.

Saatchi fails to clinch sale of Hay in time for interim results

By Alice Rawsthorn in London

SAATCHI & SAATCHI, the troubled communications company, has failed to conclude the sale of the Hay Group, the US-based management consultancy, in time for the publication of its interim results today.

Although the deal – to sell the consultancy to its management – is still being negotiated, the delay will come as a blow to Saatchi, which has seen its share price more than halved since the start of the year. Saatchi is expected to announce today that it cannot pay an interim dividend and that its pre-tax profits fell from £20m ($33.4m) to £12m in the six months to March 31.

Saatchi is believed to have agreed the framework of a deal to sell Hay for around £50m over the weekend. The two sides had hoped to sign the deal in New York last night.

Hay, like the rest of Saatchi's consultancies, has been up for sale since last summer. Saatchi has been negotiating with the management team for months, but its attempts to clinch the deal have been fraught with problems.

The Hay managers found it difficult to find finance in the depressed venture capital market. The sale has also been blocked by logistical problems. Hay has more than 130 partners, all of whom have to sign the deal. There have also been problems concerned with the Hay pension funds.

Saatchi acquired Hay for $110m (£65m) in 1984, as part of an ill-fated attempt to establish an international presence in management consulting. Saatchi, which needs to raise capital to reduce its debts, originally hoped to raise between £200m and £250m from the sale of the consultancies.

The disposals have proved so difficult that Saatchi now expects to raise less than £100m.

Mr Robert Louis-Dreyfus, who became chief executive of Saatchi in January, has fixed prices for management buy-outs with the consultancies in the hope of encouraging them to improve their performance until the deals are finalised.

He said that some companies – including Gartner, the computer services consultancy, and Litigation Sciences – were faring better. However the condition of others, such as MSL, which is involved with the depressed recruitment market, has deteriorated.

● Mr Martin Sorrell, chief executive of the WPP Group which recently replaced Saatchi as the world's largest marketing services group, increased his salary from £505,000 to £629,000 in 1989, according to WPP's annual report. Mr Sorrell is a former finance director of Saatchi, where the directors recently took voluntary pay cuts.

Maxwell stalks US newspaper

By Raymond Snoddy in London

MR ROBERT Maxwell, publisher of Britain's Mirror Group Newspapers, is in the market to buy a leading daily newspaper in the American Midwest.

He said yesterday in New York, at the annual meeting of Berlitz International, the language teaching group, that he was in talks to purchase a major US newspaper. He did not identify his target or its owner.

Speculation immediately centred on the Minneapolis Star and Tribune, one of the leading papers in the Midwest. But Mr Roger Parkinson, the group's publisher, said yesterday he could "categorically deny" that there had been any talks with Mr Maxwell.

"I met Mr Maxwell for the first time on Sunday at the Governor's mansion," said Mr Parkinson.

Mr Maxwell was there for the launch of the Gorbachev-Maxwell Institute of Technology, a centre for research by American, Soviet and European scientists.

Mr Maxwell said he would contribute $50m for the centre, to be matched dollar-for-dollar by Minnesota Governor Rudy Perpich and a committee from the state.

Mr Maxwell has long been trying to buy a leading US newspaper, following his acquisition of Macmillan, the US publishers. His name has been linked with both the Daily News in New York and the New York Post.

There are also claims that Mr Maxwell has been approached about purchasing the Washington Times, the loss-making daily owned by supporters of Rev Sun Myung Moon's Unification Church. It is unlikely that he would be interested in a stake in the paper while any religious links remained.

Last month Mr Maxwell bought three US tabloid newspapers from Globe International Publishing – the Globe, the National Examiner and the Sun. But he has made it clear that this was not the purchase he had in mind.

At the Berlitz meeting, Mr Maxwell said that both the language training group and The European newspaper, launched last month, would benefit from the economic consolidation of Europe.

INTERNATIONAL COMPANIES AND FINANCE

Anglo American up 20% despite decline from gold

By Philip Gawith in Johannesburg

ANGLO AMERICAN, South Africa's largest mining house, increased attributable earnings by 20.1 per cent to R1.51bn ($566m) in the year to March, despite a drop in earnings from their gold mining interests.

The improved results – which on an equity accounted basis were up 18.3 per cent to R3.13bn – testify to the group's diversity. The star performer was diamonds, earnings from which rose 30.9 per cent to R889m, the largest single contribution to equity-accounted earnings.

Mr Julian Ogilvie Thompson, chairman, noted that the splitting of De Beers' local and foreign interests into two separate companies, with their shares linked for trading purposes, had added to the value of the group's 32.7 per cent holding in De Beers.

He added that no such split was envisaged for Anglo American, saying there would be little or no logic to the move.

Gold and uranium contributed just 11.9 per cent to equity accounted earnings. The severity of the profitability decline being experienced by the industry is shown by the fact that this figure was 29.7 per cent three years ago.

Other mining activities, coal and platinum in particular, performed well. Industrial interests performed satisfactorily.

Mining finance, primarily holdings in Minorco, JCI and South American investments, contributed R649m to equity-accounted earnings, or 20.7 per cent of the total.

Equity accounted earnings per share were 18.3 per cent up at R13.52 and the total dividend was increased 20.4 per cent to R3.25 cents. Mr Ogilvie Thompson said that 1990 was seen as a year of consolidation and that earnings were not expected to grow as much as last year.

● Anglovaal, another big mining house, has announced estimated consolidated earnings of R232.4m for the year ending June 30, an improvement of 27 per cent. The dividend is 21 per cent up at 92 cents per share.

Mr Clive Menell, deputy chairman, said the better earnings were mainly due to improved equity-accounted earnings at Associated Manganese Mines and an expected improvement at Anglovaal Industries.

PA Consulting in venture with Japanese supplier

By Alan Cane in London

PA Consulting Group and K.K. Ashisuto, a leading Tokyo-based software supplier, are joining forces to offer consultancy to the Japanese.

A company, APA KK, 70 per cent owned by PA and capitalised at Y30m ($190,000), will be formed. The rest of the equity will be split between K.K. Ashisuto; Mr Toshiaki Sakakibara, APA KK President whose computing career includes experience with IBM, Mobil Oil Corporation and American Express; and Mr Charles Cronheim, IT director for Mobil Oil in Japan.

Japanese companies have traditionally made little use of computing consultancies, preferring to rely on hardware vendors. They are beginning to move increasingly to "open" or industry standard systems, where design of hardware is less important. PA reckons information technology (IT) consultancy to be worth $600m in annual fee income in Japan, and growing at more than 20 per cent a year.

PA is one of the main UK-based IT consultancies, with broad experience in the software tools and methodologies needed for modern systems creation. K.K. Ashisuto was founded by Mr Bill Totten, a US computer expert, and specialises in marketing US software to the Japanese.

Fondiaria bets on a simplified ownership schedule

The Italian insurance group hopes that the latest control change will add stability, writes Haig Simonian

Four changes of ownership in almost as many years is not the usual recipe for making a successful business, let alone one in the conservative world of insurance where consistency is a highly regarded attribute.

That Fondiaria, Italy's fourth biggest insurer, has managed to survive and even flourish owes much to the continuity provided by Mr Alfonso Scarpa, made general manager at the start of 1982, and managing director since mid-1985.

Mr Scarpa has successfully steered the group through the troubled 1980s, when its destiny was controlled, progressively, by a small shareholders' pact guided by Mediobanca, the merchant bank; the Montedison chemicals group; Ferruzzi; and now GAIC, a financial group controlled jointly by Paleocapa, the holding company of Mr Carlo De Benedetti's brother Camillo De Benedetti, and Ferruzzi Finanziaria (Ferfin).

Recently, even Paleocapa has been jolted by the decision of Mediobanca and Lazard Frères, two important shareholders, not to participate in the rights issue to help finance the Fondiaria purchase. And Mr Carlo De Benedetti's CIR group has denied reports that it will fill the gap.

The latest change in ownership has come hand in hand with a tax-inspired restructuring at Fondiaria. This involved establishing an ultimate holding company and a group operating unit, the independently listed La Fondiaria Assicurazioni.

From a collection of independent companies, the reorganisation should help create a coherent group with a co-ordinated marketing strategy, and promote cost savings, which could add 40 per cent to group profits by 1993, according to one estimate.

Mr Scarpa, who is on the board of Ferruzzi Finanziaria, claims that the new ownership structure, which gives GAIC 51 per cent of Fondiaria, will provide the security the company has sought. He says Fondiaria has now "established a shareholding group which will supply support."

Among shareholders taking part in GAIC's L3,600bn ($2.9bn) rights issue now under way to finance the deal, are Aachener und Münchener

Alfonso Scarpa: shareholding group 'will supply support'

(A&M), the big West German insurer with which Fondiaria has close links, and the Long Term Credit Bank of Japan.

Although not directly involved in GAIC, Royal Insurance of the UK, which has a 20 per cent stake in A&M, is another participant in the network. In a deal struck last July, Royal paid Fondiaria L220bn for 90 per cent of Lloyd Italico, a small general insurer, with Fondiaria retaining the rest.

This year Fondiaria's patchwork was extended with the arrival of Group des Assurances Mutuelles Agricoles (GroupAMA), a diversified French mutual insurance group. In a L560bn deal, it bought 20 per cent of La Fondiaria Assicurazioni. GroupAMA spent a further L180bn on a 5 per cent holding in GAIC, with a commitment to participate fully in the rights issue.

Ferfin's desire to pull out of direct ownership of Fondiaria was an open secret for much of 1989. But Mr Scarpa claims that the deal with GAIC, of which Ferfin now holds 25.5 per cent – identical to Mr De Benedetti's Paleocapa – was a solution serving everybody's interests.

Apart from Ferfin's wish to reduce debt and concentrate on core industrial businesses, the group may have been swayed by last year's battle for Groupe Victoire in France. Mr Scarpa suggests that this provided graphic insight into the sums needed to develop a European insurance business.

But "Ferfin was behind our strategy and did not want to sell out completely," says Mr Scarpa. The transaction left Ferfin L2,700bn better off after tax while still indirectly controlling Fondiaria.

With a new shareholding base established, Fondiaria's strategy involves further developing the alliances it has been accumulating since first joining forces with A&M in November 1988 to take equal stakes of just over 25 per cent in Volksfürsorge, the German life insurance group formerly owned by the country's trade union movement.

Despite spending some DM750m ($444m) then, Fondiaria has otherwise eschewed big bids. Money – or the lack of it – is partly the cause. Although one of the top 10 companies in Italy by stock market capitalisation, Fondiaria is not a major player in the European insurance industry.

Group premiums for last year were L3,018bn. Most stemmed from Italy, where Fondiaria ranks as the third biggest private-sector insurer behind Generali and RAS, the Allianz subsidiary.

Fondiaria's size explains why some Italian analysts wonder whether it may seek a partner – with Generali tipped as the most likely domestic candidate. Italy's biggest insurer retains 5.65 per cent of Fondiaria, while Mr De Benedetti is deputy chairman of Generali.

However, that post is likely to be relinquished this year, says Mr Scarpa. "We remain friends and competitors" with Generali, he says, rejecting any hint that the latest moves may bring the two companies closer together. Instead, Mr Scarpa says he will concentrate on building alliances, while making use of the cash generated by the group's restructuring to develop Italian business.

He spurns the huge deals that have erupted in the European insurance industry in the run-up to the arrival of the single European market in 1992. "Just buying a company doesn't make the acquirer more European," he insists. "You need to have structures and shareholders which are also European."

Hence his emphasis on building a network of partnerships, sometimes underscored by small equity stakes or joint ventures as a way of binding like-minded European insurers.

German chemicals mixture fails to gel

Peter Marsh finds link plans dashed at both Schering and E Merck

Spare some sympathy for Schering and E. Merck, West Germany's fourth and sixth biggest pharmaceuticals companies. Both have suffered rebuffs in efforts to find partners in important parts of their businesses.

Also, both have problems in selling pharmaceuticals in the US, the world's largest drugs market, for reasons tied up with events decades ago.

The companies have broken off talks with Degussa, a West German chemicals business, and Sandoz, the Swiss chemicals and drugs group.

Degussa was to have joined with the privately-owned E. Merck's medicines division, while Sandoz was to have combined its agrichemicals division with Schering's. The Schering/Sandoz venture would have created one of the top six agrichemicals groups.

E. Merck and Schering have expressed disappointment at the breakdown in talks, although they say it should not deflect them from efforts to build their drugs businesses, especially in the US.

Schering and E. Merck are frequently confused with Schering-Plough and Merck, two much bigger US medicines groups, with which the German businesses are linked only by historical ties.

Schering-Plough took over Schering's drugs interests in the US when these were confiscated after the Second World War. Merck, the world's biggest pharmaceuticals company, has grown strongly since it was founded last century in the US by a descendant of Mr Jacob Merck, who started E. Merck in Germany in 1668. Members of the Merck family still control E. Merck, though some shares in the company's Swiss subsidiary are traded publicly.

Largely because of these past events, neither Schering nor E. Merck are well known in North America. Neither have tried particularly hard to build their presence there in recent years. The region accounts for 14 per cent of Schering's sales and 13 per cent of E. Merck's.

Both companies say, however, that they are looking for expansion in the US. So far Schering has made the most headway. It is making a bold effort to boost sales in the 1990s through the planned acquisition of Codon, a small Californian biotechnology company, for a price believed to be about $80m.

Codon, with yearly sales of about $10m, has special expertise in biotechnology techniques that could be used to develop drugs for treating heart conditions and nervous complaints, two fast-growing medicine sectors.

Schering is spending about DM100m ($59m) a year, roughly a quarter of its drugs research and development budget, on studies in these fields. Most of this work is done at the company's main laboratories in Berlin.

Schering is talking to Yamanouchi of Japan about a joint venture there in oral contraceptive pills. Schering is the third biggest company in this $2bn-a-year international business after American Home Products and Johnson & Johnson, US drugs companies.

The Japanese Government, citing ethical and safety arguments, does not permit sale in Japan of birth-control pills but is reviewing the position. Schering and other large contraceptive-pill groups hope the market will be opened within the next two years.

Professor Hans Joachim Langmann, E. Merck's 65-year-old chairman who is related by marriage to the Merck family, says the company aims to stay privately owned. It benefits, he says, from a simpler corporate structure and not having to worry about shareholders or a supervisory board. "We can take a long-term view," he says.

SALES BREAKDOWNS (1989, DMbn)	
SCHERING	
Pharmaceuticals	3.02
Agrichemicals	1.39
Industrial chemicals	1.09
Electroplating	0.34
Total	5.84
E. MERCK	
Pharmaceuticals	1.48
Pigments, liquid crystals & other chemicals	1.06
Laboratory reagents	0.92
Total	3.46

Both Schering and E. Merck are strong in imaging chemicals – a small but highly profitable area of the drugs business. Sales of about £2bn a year are controlled by a handful of companies, which includes the two German groups, Sterling Drug of the US and Norway's Hafslund Nycomed. E. Merck owns 50 per cent of Bracco, an Italian maker of imaging chemicals.

The materials are used in medical diagnosis with X-ray and magnetic resonance imaging (MRI) equipment.

Dr Giuseppe Vita, Schering's chairman, is enthusiastic about the company's Magnevist, an imaging chemical which is the first product in this field. Dr Vita, an Italian who took over at Schering last year, says Magnevist will have sales of DM100m in 1990.

Neither Schering nor E. Merck are dependent on pharmaceuticals. Schering, besides its agrichemicals interests, has a strong position in electroplating chemicals and equipment, a $1.3bn-a-year business in which it claims a quarter of world sales.

E. Merck has a large business in laboratory chemicals and is the biggest company worldwide in two specialised segments of the chemicals industry – liquid crystals used for electronic displays and special pigments based on mica.

Brighter times for Saudi banks

...esults from Saudi Arabian banks are showing a rapid and sustained ...vement in profitability in ...nd for the first quarter of ...ear.

...ajhi Banking and Investment Corporation (Arabic), the ...y created Islamic bank, ...net profits of SR1.1bn ...m) last year, while there ...fourfold improvement at ...d Saudi Commercial ...(USCB) to SR95m.

...ng the foreign-joint ventures, ...stitutions, profits more ...doubled to SR80m at ...Dutch Bank and there ...a jump of some 80 per ...t Saudi American Bank ...a) which reached ...m. Saudi British Bank ...le to bounce back from a ...f heavy losses in 1988 to ...profits of SR122m.

...positive picture for 1989 ...y being further brightened ...y generally buoyant 1990 ...arter performances.

...many banks, last year ...significant lightening of ...rden of problem loans ...dogged the 1980s. While ...ioning at some banks ...ned flat, banks like ...Saudi Dutch, Saudi ...(after making provisions ...nearly SR300m in 1988) ...SCB set aside less for ...ons.

...Saudi banks last year ...significant lightening ...burden of problem ...which dogged the ...writes Our Riyadh ...pondent

...officials boasted of ...cant gains" and "breaking ...s" this year in setting ...ts for loans that had ...d the institutions for ..."There is less in loan ...rovisions now so more ...s are going into the bottom ...e," explained Mr Mehli ...managing director of ...

...Samba itself, he says, ...rn is probably now" in ...ning. Samba's position ...ded by the successful ...s recovery efforts of a ..."remedial management ...roup which was able to ...SR38m for the bank ...r.

...rtheless, Riyad Bank, ...nd largest in the kingdom ...terms of assets after ...al Commercial Bank, ...ed to raise provisions ...281m, setting aside ...more than last year. ...a 30 per cent pick-up in ...erating income, therefore ...ofits fell slightly last ...SR255m after added ...ns along with a high ...unds.

...e much smaller Saudi ...nent Bank, despite ...nt collection efforts," ...as also a continued ...nent to increased provisioning. ...It added SR25m ...he budgeted goal of ...

...e tougher credit evaluation ...d approval standards at all the banks, loans to the private sector are rising at a moderate pace. Credit to deposit ratios at all the institutions still remain very low, in the 20 per cent to 30 per cent range, with Saudi French Bank at the top with almost 40 per cent.

The level of deposits abroad remains high. According to an analysis of banking trends over the last decade by the Riyadh-based Consulting Centre for Finance and Investment, deposits abroad as a percentage of total deposits of most of the banks have steadily increased. In 1988, nine banks crossed the 50 per cent mark, a position many of them still hold.

But bankers lending to the private sector are noticing a resurgence of economic activity in general and talk optimistically of an increase in quality lending opportunities over the coming year which should boost their loan portfolios.

In addition to the traditional operation and maintenance contracts they foresee more financing opportunities spinning off from the sizeable Saudi Aramco and Sabic expansion programmes as well as the US and UK offset programmes.

Bankers also talk of a lot more private money finding its way back into the banking system and deposits continue to climb at most institutions. "We are all attracting a lot more deposits and we're all still pretty liquid," notes one senior banker in the kingdom.

Although deposits are rising, however, the Consulting Centre notes a slight drop in the rate of growth in deposits in 1989.

After two years of painful slashing of expenses, a number of the larger banks are also starting to increase spending moderately to expand their market share and diversify their services. "Most of the tough cost-cutting was done in 1987," points out Mr Andrew Dickson, deputy managing director at Saudi British. Another bank manager adds: "We are now seeing the fruits of belt tightening after the explosion of expenses over the years."

Operating expenses have been inching up at Saudi French, Samba, Saudi British, Arab National and Riyad Bank. There has been a significant investment in computerisation and enhanced operating efficiency over the past couple of years in most institutions. USCB, however, cut its expenses by a third in 1989.

With cost-cutting largely behind them, banks have been seeking other means of enhancing profitability. Besides commitments to build quality corporate loan portfolios, some bankers also see a further potential in retail banking. "Retail banking is starting to assert itself in a deposit sense," says one bank manager.

Bond Media minorities hold key

By Our Financial Staff

PRIVATE investors in Bond Media, operator of Australia's Channel Nine television network, yesterday gained a central role in deciding the fate of the embattled company when the National Companies and Securities Commission (NCSC), the country's securities watchdog, barred Mr Alan Bond's companies from voting through its planned change of control.

The NCSC gave conditional approval to a complex weekend deal which will return control of Bond Media to Mr Kerry Packer at a fraction of the A$1bn (US$775m) at which he sold it to Mr Bond 3½ years ago. But it ruled that Bond Corporation Holdings and Dallhold Investments, Mr Bond's private company, cannot vote their combined 64 per cent stake in Bond Media at a meeting of its shareholders which will pass judgment on the deal.

The Bond group had initially committed itself to voting the holding in favour of the sale, which involves a recapitalisation converting A$200m existing preference shares held by Mr Packer's Consolidated Press Holdings into Bond Media ordinary shares.

Bond Media said at the weekend: "After the recapitalisation Consolidated Press will have a controlling shareholding in Bond Media in excess of 50 per cent."

Mr Henry Bosch, NCSC chairman, said the terms of the proposal created a technical association between the two parties. Control of the group was thus set to change hands without shareholders being given the opportunity to participate in any offer.

The deal pushed Bond Media shares 3 cents higher yesterday to stand at 17 cents.

The swift decision by the authorities reflected a tight deadline for Bond Media, which was due to today to face an application by Consolidated Press in the Western Australian Supreme Court for it to be wound up. Mr Packer was likely to have pressed ahead with this if he had not secured an agreement which would bring the company back in his control.

The deal is still subject to approval by the court and by a syndicate of banks owed A$387m by Bond Media.

The NCSC decision leaves only minority shareholders with the right to vote at the meeting.

CSR increases net profits by one third

CSR, the Australian sugar and building materials group, boosted net profits by a third to A$406.8m (US$315.4m) from A$306.4m in the year to March, a period during which it bought the ARC America aggregates business which was formerly part of the UK's Consolidated Gold Fields, Our Financial Staff writes.

The new units "incurred normal winter seasonal losses in the two months during which they were owned by CSR," according to Mr Ian Burgess, managing director. There were also costs associated with the acquisition and rationalisation of the ARC operations as part of its moves to "consolidate and extract full value from ARC America," divest surplus assets and seek other high-yielding businesses.

Total revenue rose 6 per cent to A$5.66bn. Profit in the timber products division fell 22 per cent to A$37.1m but earnings from sugar jumped 50 per cent to A$102.5m.

With a final 24 cents against 18 cents, the dividend is being lifted to 40 cents from 32 cents. Earnings were 55 cents a share against 44 cents.

Slow first half for Fuji Film

By Our Financial Staff

FUJI PHOTO Film, Japan's leading maker of photographic film, edged up worldwide net profits 3.9 per cent in its first half to April 20, to reach Y44.12bn ($291.3m) although sales grew by a faster 12 per cent to Y508.6bn.

It expects a better rate of earnings growth for the full year, however, with an after-tax consolidated profit forecast of Y91bn, up 9.3 per cent. Sales of Y1,040bn are expected, topping Y1,000bn for the first time.

The group has been investing vigorously in new facilities, including a plant in the Netherlands which has recently come on stream. Fuji has a 70 per cent market share for film at home and internationally is seeking to gain ground against Eastman Kodak.

For the six months its core camera and film products showed the strongest growth in turnover. Divisional sales rose 18.6 per cent to Y251.6bn. Sales of commercial products were up 9.9 per cent to Y201bn. Magnetic products at Y56.2bn increased 9.2 per cent.

The parent company alone showed pre-tax profits of Y83.15bn, up 11.3 per cent. The full-year outcome there is projected to be Y165bn, an increase of 9.1 per cent.

Fuji is maintaining the interim dividend at Y7.25 per share and expects an unchanged total pay-out of Y14.50 – there had been some expectation that it might rise to Y15.

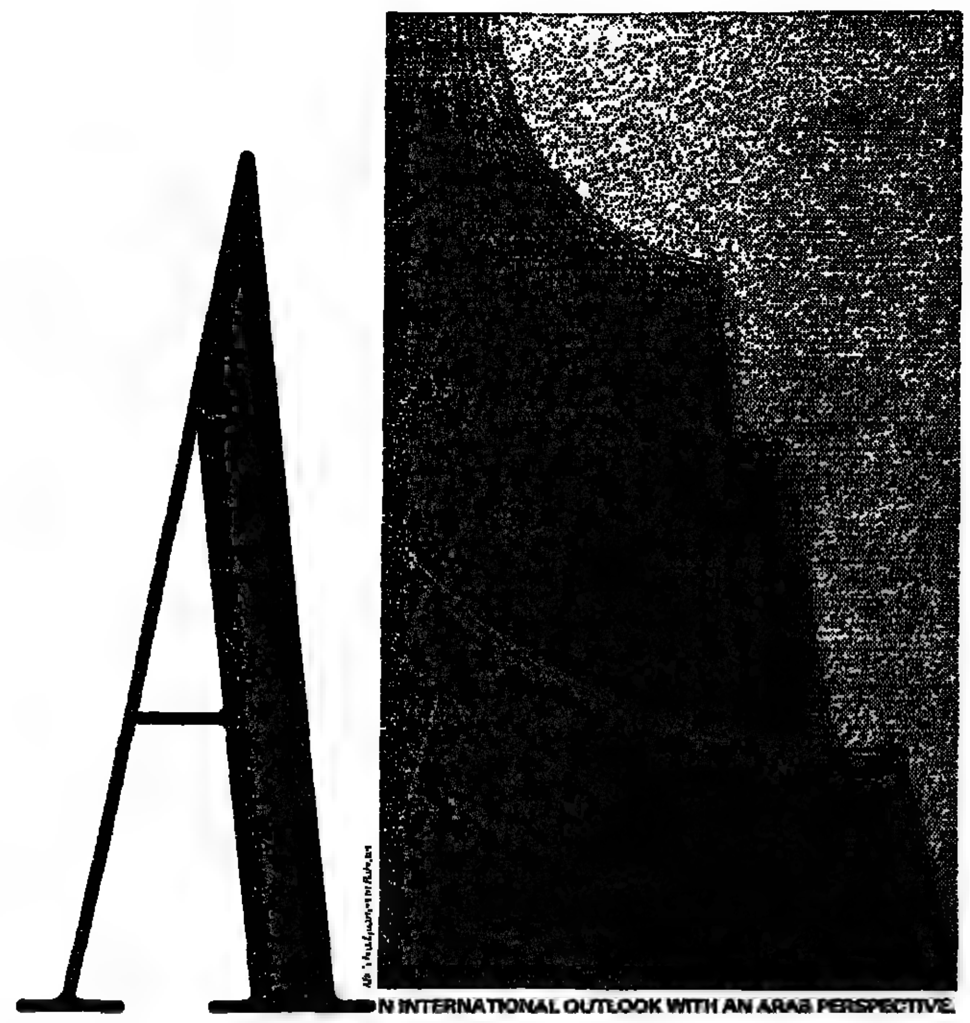
Email ahead in spite of fall in spending

EMAIL, the Australian white goods and industrial products manufacturer, lifted net profit 5.2 per cent to A$80.1m (US$61.7m) in the year to March, affected by a fall in consumer spending and sharply higher interest costs, Reuter reports from Sydney.

It also took an extraordinary loss of A$60.5m on brand names acquired through the purchase of the Simpson Holdings appliance and Bunge Australia metal distribution businesses. The two new units helped boost turnover 29.6 per cent to A$1.36bn.

Sir Peter Finley, the chairman, said: "The company has the capacity to take advantage of favourable opportunities for expansion."

● Wormald International has sold its 25 per cent stake in Australian Submarine Corporation for A$29.15m to the other partners – the government-controlled AIDC and Kockums of Sweden. Wormald is selling most of its businesses to Tyco Laboratories of the US.



INTERNATIONAL COMPANIES AND FINANCE

Time for chairmen to heave a sigh of relief

Roderick Oram reports on the way proxy votes have forced boardrooms into action

Now that the annual meeting season has drawn to a close across the US, you can almost hear the sighs of relief from many boardrooms.

Rarely have so many managements been challenged by their shareholders now that proxy fights, once a glamourless tool of corporate governance, have become one of the favourite weapons of Wall Street.

Proxy fights – whereby a shareholder vote is sought to overturn management decisions – have enlivened the nearly moribund takeover scene, helping bidders overcome difficulties created by their targets' legal defences. They are also giving a voice to those institutional shareholders which hanker after a more active role in the companies they own.

But crucial questions still hang over them. Are they becoming a permanent prod to incumbent managements or are they just the latest Wall Street fad? Will they fade away again once financial, legal and market conditions change?

The new-found importance of the proxy fight is permanent, argue a handful of Wall Street firms – such as Georgeson, D. F. King and the Carter Organisation – that lead such fights for dissident shareholders or defend companies against them.

They are one of the most effective ways to tackle managements which now have more protection from takeovers than ever before. A growing number of states, for example, are passing statutes to protect local companies.

Moreover, managements are feeling less threatened by corporate raiders since the junk bond market collapsed and banks grew more cautious about lending money for acquisitions.

Mr John Gavin, president of D. F. King, said proxy fights were the mechanism of choice now the ease of takeovers had gone. The threat of dissidents throwing directors off the board is giving them second thoughts about blocking a bid.

Broadly speaking, proxies are being used in three different contexts: as a weapon to expedite a tender offer; to gain control of a board without making an offer for the company's stock; or to force the board to take specific actions.

In the first, actual or threatened proxy fights have been used with great success in several high-profile takeovers this spring. Georgia-Pacific used three proxy initiatives to dismantle defences of Great Northern Nekoosa, forcing the forest products group to accept a $3.6bn takeover, and UAL accepted a $4.38bn employee buy-out proposal after a shareholder, Coniston Partners, threatened to oust the airline's board if it did not.

Torchmark, a small insurer, succeeded in putting American General, a much larger competitor, into play through a proxy fight. It failed to get directors sympathetic to a takeover elected to the board, but many shareholders backed a non-binding Torchmark resolution calling for American General to put itself on the block.

The board acquiesced and is seeking offers of about $7bn, with Torchmark certain to bid. Torchmark needed to instigate a friendly deal as insurance regulators frown on hostile takeovers.

The tactic is far from being a sure-fire winner. BTR, the British conglomerate, launched a $1.6bn bid for Norton and began a proxy fight to dismantle its legal defences. But BTR misjudged the strength of local support the Massachusetts industrial group rallied.

In the end Norton agreed to a bid from Saint-Gobain of France which offered more money and stronger safeguards for the local community than BTR.

Most notable in the second area this spring was the case of Lockheed. Mr Harold Simmons, the Texas investor, tried to fill the Lockheed board with his own nominees. He told shareholders his team would run the aerospace contractor, beset by declining defence budgets, better than its incumbent directors.

But was he just trying to make the best fist of his 19 per cent stake in Lockheed?

With takeover activity cooling, acquisition money drying up and Lockheed's prospects dimming he was facing a paper loss of $100m on his stock with no hope of bids for the company.

Lockheed's board fought back, outlining its own plans and making concessions to shareholders demanding more say in the company. Some shareholder representatives will join the board and the company agreed to remove some legal impediments to takeovers.

The concessions, coupled with Mr Simmons' inability to convince enough shareholders he was a serious manager and not a raider, gave the incumbent board a comfortable victory.

In the third area, shareholders have tried to force companies to take specific actions. Most notably Mr Carl Icahn proposed that USX spin off its steel operations. But the New York investor's timing was terrible.

Steel is beginning a cyclical downturn and Wall Street knows he is stuck with a 13.3 per cent USX stake and is unable to make a takeover bid in today's climate. He lost the vote by a wide margin.

At other companies, shareholders have chipped away at defences through annual meeting resolutions. Typically they seek to dismantle impediments to takeovers, such as poison pills and elements of Delaware state's corporate charters.

Such campaigns are being led by a small band of interventionist institutional investors. One of the most vociferous is the California Public Employees Retirement System, a huge pension fund and a supporter of Mr Simmons against Lockheed.

But, said Mr John Wilcox, a senior official at Georgeson, most of these resolutions were non-binding and there were far fewer of them in the current meeting season than expected.

A few years ago the Department of Labour began to urge pension funds to be more accountable for their proxy votes. Representing about 35 per cent of all institutional shareholder assets, the funds now consider their positions more carefully and often seek guidance from newly-formed advisers such as Institutional Shareholders Services.

Institutional shareholders, conscious of their fiduciary responsibilities, are more likely to vote for dissidents than individual shareholders; the latter might be more amenable to a management's plea for a longer view. Institutions hold about 47 per cent of Lockheed's stock and had held about 69 per cent of Norton.

Mr Arthur Ross, president of Carter, maintained that shareholders really did listen to proxy pitches. "Lots of them change their votes in the final 24 hours or so" of a fight.

Most of these fights represent only small victories for shareholders. With managements still wielding enormous power, fully fledged investor democracy is a long way off.

But it would be a mistake for them to think that the end of the annual meeting season marks the end of the hunting season. Many companies' bylaws allow shareholders to solicit support for special meetings any time during the year and, given the popularity of proxies, they are likely to be year-round irritants to management.

Crucial questions still hang over proxy fights. Will they become a permanent prod to incumbent managements or are they just the latest Wall Street fad? Will they fade away again once financial, legal and market conditions change?

Corona plans to divide in fight for Stikine control

By Robert Gibbens in Montreal

MR NED GOODMAN, the Toronto financier, plans to split his Corona Corp into two separate holding companies, one mining and the other financial services, as he fights for full control of Stikine Resources against Placer Dome, North America's biggest gold producer.

Stikine owns half the Eskay Creek gold property in remote northern British Columbia where indicated reserves are 6.5m tonnes of ore grading 0.53 oz of gold.

The other half is owned by Prime Resources, another exploration company owned 20 per cent by Corona. Four or five new gold mines are likely to be developed in the Eskay River area, analysts say.

Corona opened the bidding for Stikine in April by share exchange. It does not have large cash resources.

Then last week Placer, with more than C$700m (US$590m) cash available, bid C$67.50 a share cash for Stikine, valuing it at C$230m.

This weekend Vancouver promoter Mr Murray Pezim, head of Prime, revealed that Mr Goodman planned a big restructuring of his companies, dividing them into a mining holding company and financial services group.

The mining company, known as Corona Gold, would be 50.2 per cent owned by Mr Goodman and Stikine shareholders would get Corona Gold shares plus an estimated C$76 per Stikine share following the restructuring.

Yesterday Corona expended on the restructuring, while trading in Corona and Stikine stocks remained halted. Mr Brian McArthur of Bunting Warburg, Toronto, said: "There are too many uncertainties. There would be two separate Corona companies with different market valuations. The value of the Stikine bid may be more than C$76, but we will not know until trading reopens in the stocks."

Mr David James, mining analyst with Richardson Securities of Canada, said Stikine shareholders would get Corona Gold shares and also a stake in the financial services group.

"It's an attractive offer and based on last week's prices it could be worth around C$80 per Stikine share. Some details of the restructuring are still not known, but Placer may be a little late in the game."

Millionaire-maker, Page 36

Kinburn owes Royal and Dominion banks C$237m

By Robert Gibbens

THE ROYAL BANK of Canada and the Toronto Dominion Bank are together owed C$237m (US$202) by the troubled Kinburn high technology group.

The Royal leads a syndicate of seven banks owed a total of C$358m by Kinburn in default on these loans and on nearly C$420m of loans from BCE, the holding company that owns Bell Canada, the eastern Canada telephone utility. The banks have priority in negotiations now under way to sell most of Kinburn's assets.

Kinburn owes the Royal C$160m and the TD C$57m, Central Guaranty Trustco C$41.5m, and lesser amounts to Swiss Bank Corp (Canada), Caisse Centrale Desjardins, Canada Trustco and Ahn Bank Canada. Kinburn's manufacturing subsidiaries and the profitable 50.1 per cent-owned SHL Systemhouse, a large systems integrator, were pledged against the loans. All these assets are for sale.

The Kinburn group, built up by Mr Roderick Bryden, the Ottawa entrepreneur, foundered early this year because of excessive debt, poor results from SHL and the cost of taking private Paperboard Industries, another large subsidiary.

● Reuter reports from Toronto: The 9,000 members of the International Association of Machinists employed by Air Canada have voted 84 per cent in favour of strike action following rejection of a company offer to renew a contract which expires June 24, the union said.

INTERNATIONAL CAPITAL MARKETS

Treasuries extend gains as positive mood persists

Janet Bush in New York and Deborah Hargreaves in London

Treasury bonds tended ...er yesterday in a continua... of the strong buying ...ch followed last Friday's ...ker than expected May ...loyment figures.

...late trading, the Treasury's benchmark long bond ... quoted around ¼ point ...er for a yield of 8.42 per ... and short-dated maturi... most sensitive to any hint ... imminent change in mon...y policy, were around ... up from Friday's closing ...s.

...e ability of the bond mar...o build on Friday's sharp ...s with apparently very lit... profit-taking underlines ... generally positive the ...l is despite doubt about ...positive interpretation of ...s employment figures.

...e market concluded from ...elease that there had been ...ally no employment ...th apart from those work... taken on to carry out the ...ensus. This did not appear ...cord with other indicators, ...ding Friday's survey from ... purchasing managers, ...h suggest a noticeable ...nd in the manufacturing ...r and a jump in overtime ... hours worked which ...sted that those who are ...rk are more stretched.

...erall, the figures were ... to suggest that the US ...ral Reserve may have ... scope to ease but there is ... feeling that the Fed will ...ery cautious about any ... move with core inflation ...above desirable levels.

...re is very little economic news this week with only auto sales today, and chain store sales and consumer credit on Thursday, of much interest. New supply is not much of an issue this week with only yesterday's Treasury bill auctions slated, albeit with a higher total of $17.2bn.

■ THE Japanese Government bond market continued to draw strength from Friday's rally although profit-taking saw the yield on the 119 bond close not far off its high-point in Tokyo at 6.91 per cent.

London trading of Japanese bonds was quiet yesterday with the yield moving in a range of several basis points and ending close to the Tokyo level. Activity in the yen bond futures contract on the London International Financial futures Exchange was low and the September contract traded only 95 lots.

The firming of the dollar against the yen yesterday discouraged some buyers of Japanese bonds since the bond market has traditionally followed the fortunes of the currency.

However, investors are increasingly turning to the yield differential between US Treasury bonds and Japanese government bonds as an indication of value in each market. With a yield differential of 153 basis points between the two which has narrowed in recent weeks, some foreign investors are turning to the cheaper Japanese market.

■ WITH most other European bond markets closed, gilt-edged securities were the centre of attention yesterday as they weathered the turbulence of a volatile day. After a higher opening, gilts prices were pushed down by the release of strong April sales figures showing strength in demand across the board. The volatility highlighted the illiquidity of the market where activity was dominated by traders dealing with each other.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	94-30	+15/32	12.50	12.75	13.75
		10.500	5/99	91-28	+0/32	12.00	12.20	12.96
		9.000	10/08	84-06	+0/32	11.01	11.21	11.77
US TREASURY *		8.875	05/00	102-28	+07/32	8.41	8.68	9.04
		8.750	05/20	103-16	+10/32	8.43	8.67	0.00
JAPAN	No 119	4.800	6/99	88.4963	+0.547	6.86	6.89	7.41
	No 2	5.700	3/07	93.9523	+0.828	6.45	6.64	7.12
GERMANY		7.750	02/00	93.9000	+0.080	8.69	8.76	8.81
FRANCE	BTAN	9.000	02/95	96.3488	+0.074	9.98	9.93	9.93
	OAT	8.500	03/00	92.8800	+0.070	9.64	9.61	9.66
CANADA *		9.750	05/00	91.2000	+0.100	10.75	11.30	11.70
NETHERLANDS		9.000	05/00	100.5300	+0.440	8.82	8.86	9.07
AUSTRALIA		12.000	7/99	92.4925	+0.250	13.44	13.49	13.66

London closing, *denotes New York closing
Yields: Local market standard Prices: US, UK in 32nds., others in decimal
Technical Data/ATLAS Price Sources

...futures fund backed by Lloyd's broker

...eborah Hargreaves

...W futures fund which has ... set up by John Govett ...gement is the first to ... insurance from a Lloyd's ...r.

... Paragon Sterling fund ...les a guaranteed return ...vestment – as do most ... funds currently being ... in the UK – and is insured by Special Risk Services, a broker serving the financial sector.

The insurance guarantee means that investors will receive the amount of their original capital at the end of the investment term. The broker is insuring the guarantee with a surety bond from Financial Guaranty Insurance Corporation in the US.

The John Govett fund is the third UK futures fund to be created in the wake of much publicity surrounding managed futures in the UK, after the Department of Trade and Industry announced new rules to regulate the investments.

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds ... [illegible]

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, June 4, 1990. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
[illegible]					
Ethiopia	(Ethiopian Birr)	3.4363	2.0509	1.2110	1.3436
Falkland Is	(Falk £)	1.00	0.5968	0.3524	0.3910
Faroe Is	(Danish Kroner)	10.8275	6.4622	3.8158	4.2336
Fiji Is	(Fiji $)	2.5337	1.5122	0.8929	0.9906
Finland	(Markka)	6.6468	3.9670	2.3424	2.5989
France	(Fr)	9.5550	5.7027	3.3674	3.7360
Fr. Cty/Africa	(CFA Fr)	477.75	285.1387	168.3700	186.8035
Fr. Guiana	(Local Fr)	9.5550	5.7027	3.3674	3.7360
Fr. Pacific Is	(CFP Fr)	173.00	103.2527	60.9691	67.6441
[illegible]					
Mozambique	(Metical)	1558.6353*	930.2508	549.2987	609.4370
Namibia	(S A Rand)	4.4558	2.6593	1.5703	1.7422
Nauru Is	(Australian $)	2.1740	1.2975	0.7661	0.8500
Nepal	(Nepalese Rupee)	48.6408*	29.0306	17.1421	19.0188
Netherlands	(Guilder)	3.1950	1.9068	1.1259	1.2492
N'nd Antilles	(A/Guilder)	2.9546u	1.7900	1.0412	1.1552
New Zealand	(NZ $)	2.89325	1.7267	1.0196	1.1312
Nicaragua	(Cordoba)	186150.00*	111101.164	65603.5242	72785.9237
Niger Rep	(CFA Fr)	477.75	285.1387	168.3700	186.8035
Nigeria	(Naira)	12.9567	7.7330	4.5662	5.0661
Norway	(Nor. Krone)	10.9325	6.5249	3.8528	4.2746
Oman	(Rial Omani)	0.6450	0.3849	0.2273	0.2521
[illegible]					
Venezuela	(Bolivar)	79.5517	47.4793	28.0358	31.1052
Vietnam	(Dong)	7607.25*	4540.2864	2680.9691	2974.4868
Virgin Is-British	(US $)	1.6755	1	0.5904	0.6551
Virgin Is-US	(US $)	1.6755	1	0.5904	0.6551
Western Samoa	(Tala)	3.9535*	2.3595	1.3933	1.5458
Yemen	(Rial)	20.1120	12.0035	7.0879	7.8639
Yemen PDR	(Dinar)	0.7726u	0.4610	0.2722	0.3020
Yugoslavia	(Dinar)	19.9248	11.8918	7.0219	7.7907
Zaire Rep	(Zaire)	941.94	562.1844	331.9612	368.3049
Zambia	(Kwacha)	66.00	39.3912	23.2599	25.8064
Zimbabwe	($)	4.1470	2.4750	1.4614	1.6215

Special Drawing Rights June 1, 1990 United Kingdom £0.780479 United States $1.31058 Germany West D Mark 2.22012 Japan Yen199.536 European Currency Unit Rates June 1, 1990 United Kingdom £0.721360 United States $1.21225 Germany West D Mark 2.05294 Japan Yen184.504

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; † Basic rate. (k) Buying rate; (l) Luxury goods; (m) Market rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar; Some data supplied by Midland Bank. *Unavailable: last week's figure shown. Monday, June 4, 1990.

INTERNATIONAL CAPITAL MARKETS

Redemption of Enel FRN issue causes confusion

By Andrew Freeman

THE redemption of a floating-rate note issue for Enel, the Italian state-guaranteed electricity utility, caused confusion on the Eurobond market at the end of last week.

Some investors say they lost money because the deal was improperly called for redemption.

J.P. Morgan has admitted human error and said it is working with note-holders to effect a solution.

The $300m callable issue due to mature in 2005 was launched in 1985 by J.P. Morgan. It employed a so-called mismatch structure whereby interest periods can move out of step with fixed interest payment dates.

According to investors, the borrower had the right to give notice that it intended to call the bonds on any payment date, except where the payment date did not coincide with the end of the current interest period.

However, only after the end of May payment date had passed last week did J.P. Morgan's Trust Department in New York announce that the issue had been called for value date May 31, baffling investors who had assumed the notes would not be called at least until the end of June when the latest interest period expired.

In addition, investors say there was no notice given and argue this constitutes a double breach of the issue terms.

J.P. Morgan said yesterday that it was given timely notice of the borrower's intention to call the issue, but that it failed itself to give notice within the prescribed period.

It is understood that the Euroclear and Cedel clearing systems, where all of the notes are held, were not advised of the call until last Friday.

This meant investors holding the redeemed notes could not use their money for good value elsewhere.

Morgan Stanley splits banking arm

By Janet Bush in New York

MORGAN Stanley, the Wall Street securities company, is splitting its investment banking division in two, separating client-based business from its highly lucrative merchant banking operation.

The investment banking division will conduct Morgan Stanley's corporate finance, mergers and acquisitions, capital markets and real estate business for clients.

This division will be led by Mr Joseph Fogg, a managing director currently in charge of corporate finance.

The merchant banking division will include Morgan Stanley's leveraged principle investing, in which it commits its own capital to buying equity stakes in corporations, venture capital and high-yield financing activities.

This division will be run by Mr Donald Brennan, currently in charge of the firm's 40-strong merchant banking team.

Morgan Stanley said that the decision to separate these two clusters of business reflected the success of Morgan Stanley's programme of direct equity investments.

Over the past few years, the company has invested in 40 companies with combined assets of $25bn.

Last year, restructuring of several of its principal investments yielded a pre-tax gain of $346.5m. Net income for the whole company in 1989 was $443m.

The company also acknowledged that putting some distance between Morgan Stanley's client-based investment banking business and its principal investing helped to allay any fears of a conflict of interest between its own investment priorities and those of its clients.

Mr Fogg and Mr Brennan will report directly to Mr Parker Gilbert until he retires by the end of this year, Mr Richard Fisher, currently president who will take over as chairman, and Mr Robert Greenhill, the current vice chairman who will take over as president.

Japanese warrants set to revive

By Andrew Freeman

THE market in Europe for Japanese equity warrant issues may be about to re-open since its forced closure in mid-March.

Leading securities houses are thought to be lining up an appropriate borrower and issue size to tap the market in early July.

INTERNATIONAL BONDS

The news comes as welcome relief to the Eurobond market, where the lack of equity warrant business due to the severe stock-market fall in Tokyo has significantly squeezed profitability.

Syndicate managers said yesterday that the underlying demand for warrant issues would sustain new issue volume, and that warrant prices have recently recovered strongly from the low levels they reached in March and April.

There is, however, a psychological hurdle that must be passed before deals can be launched.

On Thursday, the June futures contract on the Nikkei Stock Index expires. If the roll-over period goes well, indicating underlying confidence in the market, then the warrant new issue market will be likely to re-open quickly.

The first deal could be launched immediately after the compulsory 20-day filing period, indicating late June or early July as the likely timing.

Japanese financial authorities want to ensure that the return of business is conducted successfully, ruling out a rush of new deals.

There is considerable speculation in the market as to possible issuers and the appropriate coupon level.

A medium-sized deal of around $250m by a well-known issuer avoiding the troubled real estate and financial sectors is the current choice of most houses.

In the profitable heyday of the equity warrant market last year, when $63bn of deals was launched, coupon levels were regularly cut below 1 per cent.

The talk now is of an attractive initial coupon, perhaps as high as 5 per cent or 6 per cent, which can then be cut back if there is strong demand.

Elsewhere, European operations were closed yesterday for an official holiday, so there was minimal activity on the Eurobond market.

Traders reported marginal secondary activity and there were no new issues.

The market for variable-rate notes was re-opened on Friday after a gap since late last year. Two deals for Finnish banks were launched, by Merrill Lynch International which felt it expects there to be several more such issues in the next few weeks.

Banks use the structure to raise subordinated capital.

A $200m 10-year deal for Union Bank of Finland was launched with an initial margin of 15 basis points over Libor. Fees were not disclosed.

Skopbank brought a $100m issue with a 50-year maturity extendable to a perpetual at the borrower's option.

The par-priced notes, which pay a margin of ⅜ over Libor, had a good reception and the deal was increased yesterday to $150m.

The new B $50m tranche is identical to the original issue except for the payment date which is August 8 as opposed to July 16.

Hungarian travel group seeks wide spread of retail investors

By Andrew Baxter

IT is fitting, perhaps, that the first east European company to experience the delights of one peculiarity of late 20th century capitalism – the international roadshow – should be a travel company.

Executives of Ibusz, the Hungarian travel agency, tourism and financial services concern which next week becomes the first privatisation by public offering in eastern Europe, are more used to handling the logistics of mass tourism than the questions of financial journalists and potential investors.

Yesterday's stop, London, marked the start of the second week of a tour that began in Budapest and will end in Vienna.

The itinerary might look a little heavy for an issue that is raising only about $33m, excluding a private placement reserved for Ibusz's 2,750 employees.

But the event has a symbolic significance that goes beyond the bare figures, officials of Ibusz and its owners, the State Property Agency, claim.

Mr István Tömpe, the agency's managing director, admits the deal is tiny in western terms, but it is providing a model for one type of privatisation that could be used again as Hungary unshackles its state economy. As one of Hungary's more successful companies, and a well-known name domestically, Ibusz is also seen as the ideal first step in fulfilling the Hungarian Government's aim that at least one quarter of the Hungarian population should become shareholders this decade.

However, with no infrastructure of investment banks nor any recent tradition of private investment in publicly-quoted companies, Ibusz and its advisers have little clear idea of who the "average" Hungarian investor might prove to be.

This is why Mr Tömpe cautions against drawing analogies between the Ibusz deal and privatisations in the west.

Hungarian small investors will get preferential treatment in what Ibusz calls "the probably difficult allotment procedure."

However, despite tax breaks for share purchase it is unclear how many Hungarians will be able to afford the 4,900 forints ($75) for each of the 440,000 shares on offer.

One Ibusz official observed that, while Hungarians were well used to investing in bonds paying a regular rate of interest, the idea of paying 4,900 forints for a share with a nominal value of 1,000 forints might prove "a little bit shocking."

Ibusz is hoping for a broad spread of international investors, who will in any case be allocated at least 240,000 shares – more than half the public issue – for tax reasons.

Because of the size of the deal, Mr Tömpe sees investment by western institutions principally as a vote of confidence in the Hungarian privatisation process.

But officials do not want the issue dominated by one or two powerful institutional investors, and are looking for strong retail interest in Austria, Germany and Switzerland.

The shares will be offered from June 11 to 15 in a transaction co-ordinated by Girozentrale Vienna, and outside Hungary will trade as bearer certificates denominated in Austrian schillings and traded on the Vienna Stock Exchange.

Listing is planned for June 21 in Vienna and Budapest, where the official stock exchange opens the same day.

The flotation will put 40 per cent of Ibusz into the hands of private investors, but Mr Tömpe said he would like to see the company fully privatised within a year or so.

Sallie Mae plugs into Europe

By Janet Bush in New York

THE Student Loan Marketing Association, popularly known as Sallie Mae, plans to make its monthly offering of six-month short term floating-rate notes available simultaneously in the US domestic market and in the Eurodollar market.

The notes will be tradeable as home market instruments in either of these markets with transactions cleared and settled through Euroclear and Cedel.

Sallie Mae is a listed company, chartered by Congress to provide liquidity to institutions extending credit to students.

It packages student loans into tradeable securities and also pioneered interest rate swaps in which fixed-rate securities are converted, for example, into floating-rate notes.

The notes will be offered in the Eurodollar market through a selling group managed by Sallie Mae, comprised of Barclays de Zoete Wedd Securities, Credit Suisse First Boston, Goldman Sachs, Merrill Lynch Government Securities, J.P. Morgan Securities and Morgan Stanley.

They will be issued through the US Federal Reserve Book Entry System in denominations of $1,000 and in $1,000 increments above that amount.

Sallie Mae said that it planned to price around $550m to $650m of these notes, due December 13, on Monday, June 11. When-issued trading is expected to begin at 8.20 am New York time on June 12 with settlement on June 14.

The notes will be priced at a spread to the bond equivalent yield of the 91-day US Treasury bill and the interest rate will be reset on the day following each weekly Treasury bill auction.

OM wins deal in Austria

By Deborah Hargreaves

OM, the expanding Swedish options exchange, has won the mandate to develop a futures and options market for Austria which is due to start trading in mid-1991.

Sweden's OM will develop a screen-based trading system for a group of Austrian banks which have set up the Austrian Futures and Options Exchange (OTOB). As well as providing the Schilling exchange on a turnkey basis, OM will deliver a marketing and training package and basic rules and regulations.

The Swedish exchange will not hold a stake in the new market – in contrast with its other international ventures – but will provide consulting, training and development services for several years after the Austrian system gets off the ground. OM has established six offshoots overseas where it co-operates with local partners.

● International Finance Corp is offering Y15bn of six-year 8 per cent dual-currency samurai bonds at 100.50, according to lead manager Nomura Securities.

UK food group in C$130m issue

By Andrew Freeman

HILLSDOWN Holdings, the UK food company, is seeking shareholder approval for an issue of perpetual preference shares in the Canadian market. The deal follows similar issues in the US market, but is thought to be one of the first for a UK company in Canada.

Hillsdown intends to raise an initial C$130m to C$150m, via Merrill Lynch, which is advising on the issue. The investor market is limited to a few Canadian institutions. The programme can eventually be increased up to C$275m.

Preference shares have been an attractive way of raising competitively-priced share capital to strengthen company balance sheets and several UK companies have participated in a thriving US market.

Hillsdown recently proposed a merger between one of its subsidiaries and a Canadian company which, if separately approved, would base nearly 30 per cent of the group's turnover in Canada. The share issue would help reduce its exposure to foreign exchange rate fluctuations.

The preference shares pay interest in Canadian dollars at a rate fixed for the first five years and thereafter negotiated with shareholders. The shares carry no voting rights and will be redeemable only at the company's option.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Monday June 4 1990: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Fri Jun 1: Index No.	Thu May 31: Index No.	Wed May 30: Index No.	Year ago (approx): Index No.
1 CAPITAL GOODS (199)	900.28	+0.3	12.91	5.04	9.38	16.08	897.27	888.92	891.84	947.72
2 Building Materials (27)	1130.13	+0.1	14.00	5.26	8.83	21.22	1128.52	1117.94	1117.67	1182.33
3 Contracting, Construction (36)	1398.94	+1.1	17.14	5.87	7.59	33.82	1384.07	1370.86	1372.64	1657.09
4 Electricals (10)	2578.31	+0.6	11.03	5.20	11.15	61.43	2561.95	2535.96	2532.36	2772.57
5 Electronics (29)	1873.75	+0.2	9.70	3.96	13.34	19.83	1869.50	1852.36	1880.93	2290.82
6 Engineering-Aerospace (8)	494.90	+1.0	13.12	4.70	9.09	9.31	490.21	485.92	481.22	0.00
7 Engineering-General (43)	494.03	+0.6	11.64	5.13	10.38	8.40	491.09	489.66	487.09	0.00
8 Metals and Metal Forming (6)	487.15	-0.5	24.27	6.40	4.66	2.31	489.68	484.82	494.17	541.47
9 Motors (16)	360.53		15.29	6.26	7.63	9.64	360.48	358.25	358.82	319.98
10 Other Industrial Materials (24)	1654.75	+0.2	10.75	4.82	10.74	35.09	1650.99	1630.30	1634.81	1537.38
21 CONSUMER GROUP (178)	1308.01	+0.3	9.24	3.82	13.39	17.96	1303.50	1288.41	1289.10	1194.40
22 Brewers and Distillers (21)	1596.05	-0.1	9.60	3.63	12.60	20.38	1598.09	1560.11	1541.47	1296.74
25 Food Manufacturing (20)	1097.82	+0.2	10.26	4.33	12.04	17.73	1096.14	1089.07	1087.96	1051.35
26 Food Retailing (16)	2496.72	-1.3	9.12	3.24	14.08	33.61	2528.64	2513.28	2521.73	2228.82
27 Health and Household (15)	2577.93	+0.2	6.68	2.68	17.82	24.15	2571.73	2556.09	2575.33	2197.13
29 Leisure (31)	1476.00	+0.7	9.84	4.19	12.37	23.99	1465.62	1444.79	1446.56	1624.67
31 Packaging & Paper (12)	611.17	+2.4	11.33	5.77	11.26	11.83	596.81	591.34	590.36	565.43
32 Publishing & Printing (16)	3524.00	+1.9	9.51	5.09	13.26	50.81	3459.64	3448.22	3443.04	3478.70
34 Stores (35)	832.36	+1.3	10.74	4.45	12.01	12.47	821.82	809.62	814.00	784.67
35 Textiles (12)	514.48	+2.2	12.29	6.95	10.42	16.06	503.16	495.09	495.41	525.40
40 OTHER GROUPS (105)	1190.59	+0.5	10.97	4.94	10.95	11.38	1185.15	1176.81	1176.70	1080.47
41 Agencies (17)	1664.43	+0.2	6.06	2.37	19.98	14.99	1661.61	1656.68	1661.34	1384.69
42 Chemicals (23)	1292.15	+0.4	11.00	5.11	10.63	31.08	1287.25	1276.52	1279.10	1260.06
43 Conglomerates (14)	1685.33	+0.5	10.00	5.87	12.01	14.41	1677.14	1669.75	1670.65	1561.75
44 Transport (13)	2276.89	+0.3	10.99	4.40	11.49	37.81	2269.06	2260.41	2259.58	2455.03
46 Telephone Networks(2)	1218.72	+1.2	10.70	4.57	12.16	0.00	1204.55	1192.46	1184.69	1022.08
47 Water(10)	1935.73	-0.6	18.00	7.00	6.15	0.00	1946.87	1935.23	1948.44	0.00
48 Miscellaneous (26)	1805.63	+0.1	12.22	5.00	9.34	19.15	1804.41	1790.06	1791.82	1566.49
49 INDUSTRIAL GROUP (482)	1182.98	+0.4	10.68	4.47	11.40	15.89	1178.53	1167.21	1168.38	1119.49
51 Oil & Gas (18)	2345.02	-0.4	11.01	5.30	11.99	46.43	2355.46	2337.57	2331.05	1999.39
59 500 SHARE INDEX (500)	1280.40	+0.3	10.73	4.58	11.48	18.34	1277.03	1265.13	1265.73	1194.29
61 FINANCIAL GROUP (108)	822.07	+0.8	–	5.61	–	19.06	815.35	805.52	803.95	722.22
62 Banks (9)	882.29	+0.8	18.60	6.09	7.04	25.62	874.95	862.39	855.03	712.52
65 Insurance (Life) (7)	1412.52	+1.3	–	5.20	–	36.94	1393.67	1381.34	1390.11	1050.69
66 Insurance (Composite) (6)	693.76	+0.2	–	5.96	–	19.43	692.13	680.75	684.11	567.41
67 Insurance (Brokers) (7)	1080.27	-1.5	8.01	6.03	16.45	27.41	1097.09	1088.05	1092.17	980.15
68 Merchant Banks (7)	442.21	+0.5	–	4.48	–	4.85	440.04	439.47	441.78	333.77
69 Property (47)	1131.33	+1.7	7.95	4.13	16.10	10.86	1112.67	1100.93	1100.69	1274.91
70 Other Financial (25)	316.42	+0.5	14.09	7.20	9.30	5.04	314.91	313.75	311.11	361.12
71 Investment Trusts (67)	1221.31	+0.8	–	3.19	–	13.32	1212.12	1209.50	1206.36	1130.40
91 Overseas Traders (5)	1413.40		8.64	6.47	14.16	43.49	1412.61	1405.21	1410.50	1307.89
99 ALL-SHARE INDEX (680)	1169.47	+0.4	–	4.70	–	18.29	1165.28	1154.24	1154.29	1078.15

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jun 1	May 31	May 30	May 29	May 25	Year ago
FT-SE 100 SHARE INDEX‡	2379.0	+7.6	2387.8	2376.4	2371.4	2345.1	2346.2	2295.6	2265.6	2088.5

FIXED INTEREST

PRICE INDICES	Mon Jun 4	Day's change %	Fri Jun 1	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	115.53	+0.22	115.71	0.44	5.15
2 5-15 years	121.91	+0.39	121.43	–	4.96
3 Over 15 years	125.07	+0.52	124.43	–	4.77
4 Irredeemables	143.35	+1.26	141.56	–	6.36
5 All stocks	121.84	+0.36	121.56	0.16	5.07
Index-Linked					
6 Up to 5 years	145.41	+0.10	145.26	–	1.49
7 Over 5 years	138.60	+0.40	138.04	–	1.38
8 All stocks	138.99	+0.38	138.47	–	1.38
9 Debentures & Loans	98.24	+0.19	98.05	–	5.42
10 Preference	73.33	+0.06	73.29	–	2.99

AVERAGE GROSS REDEMPTION YIELDS		Mon Jun 4	Fri Jun 1	Year ago (approx.)
British Government				
1 Low	5 years	11.21	11.27	10.03
2 Coupons	15 years	10.86	10.97	9.61
3	25 years	10.74	10.86	9.44
4 Medium	5 years	12.18	12.27	11.14
5 Coupons	15 years	11.33	11.38	10.14
6	25 years	10.92	10.99	9.69
7 High	5 years	12.29	12.38	11.23
8 Coupons	15 years	11.59	11.65	10.36
9	25 years	11.19	11.24	9.88
10 Irredeemables†		10.69	10.82	9.47
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	5.15	5.18	4.04
12 Inflation rate 5%	Over 5 yrs.	4.14	4.17	3.84
13 Inflation rate 10%	Up to 5 yrs.	4.12	4.14	3.30
14 Inflation rate 10%	Over 5 yrs.	3.96	3.99	3.67
15 Debs &	5 years	14.35	14.34	11.80
16 Loans	15 years	13.12	13.13	11.55
17	25 years	12.89	12.92	11.29
18 Preference†		12.57	12.58	10.21

‡Opening index 2283.9; 9 am 2379.4; 10 am 2386.3; 11 am 2385.3; Noon 2381.7; 1 pm 2382.9; 2 pm 2384.6; 3 pm 2383.2; 4 pm 2380.2; 4.10 pm 2379.7; (a) 10.28am (b) 3.21pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p. NEW HOLDING COMPANY: Commercial Union (66) replaces Commercial Union Assurance.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	86	0	12
Corporations, Dominion and Foreign Bonds	6	1	17
Industrials	510	221	852
Financial and Properties	260	68	415
Oils	17	30	42
Plantations	0	2	6
Mines	23	64	77
Others	70	46	126
Totals	972	432	1,549

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

... cover based on dividend on full capital. g Assumed dividend and yield. ‡ Earnings based on preliminary figures. § Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ¶ Unlisted securities market. * Third Market. B Units comprising 11 new ord. & 2 warrants. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

● First Dealings May 21
● Last Dealings June 1
● Last Declarations Aug. 16
● For settlement Aug. 28

For rate indications see end of London Share Service

Calls in First Australian Res., Argos, Lynx Hldgs., Tusker Res., Monument Oil & Gas and TSB. Put and call in T. Cowie.

LONDON TRADED OPTIONS

[illegible]

*Underlying security price. † Long dated expiry months.

UK COMPANY NEWS

Boots and WH Smith DIY merger

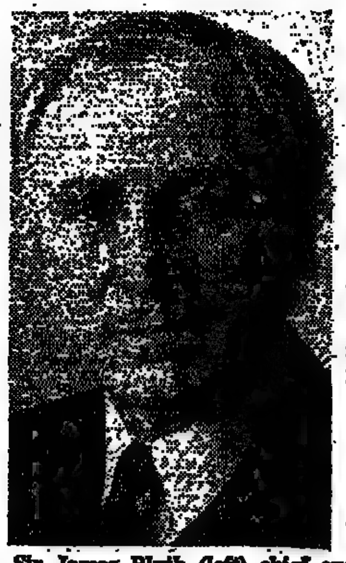
By Maggie Urry

BOOTS AND WH Smith, the retailers, were last night in final negotiations over a merger of their out-of-town do-it-yourself chains. Barring last-minute disagreements, the deal is expected to be announced today. Boots shares rose by 12p to 310p yesterday and Smith's by 5p to 352p.

Under the deal, Boots' chain Payless and Smith's business Do It All would merge and each parent would have a 50 per cent share in the combined company, allowing both to keep the joint venture off their balance sheets. The merger will lead to cost savings.

WH Smith has been in the DIY market since acquiring LCP Homecentres in 1979. Do It All now has 116 shops. In the last financial year, to end May 1989, sales were £238m and trading profits £11.3m. However, interim results showed a fall in trading profits from ... to £5.1m.

Boots entered the DIY market with its purchase of Ward White last August for £900m. After selling some Ward White businesses, for about £120m, it was left with Payless, Halfords, which retails car parts and bicycles, and AG Stanley, a high street DIY chain. Separate trading results for Payless, which has 105 stores, are not available.




Sir James Blyth (left) chief executive of Boots and Malcolm Field, managing director of WH Smith

Boots is releasing full year profit figures on Thursday and might have expected critical questions from analysts about whether it had paid too much for Ward White.

Yesterday's share price rise was partly prompted by hopes of better news on Manoplax, a heart drug which Boots' pharmaceutical division has been developing which had been held up by poor test results.

Analysts suggested yesterday that the DIY deal, if not an admission of failure, was at least an admission by both sides that they had problems in DIY. Boots had already made management changes at Payless.

The DIY market has become increasingly competitive as a number of large groups have expanded rapidly. Although for some years this was a fast growing sector of retailing, the drop in housing activity has hit sales over the last year or so and some DIY groups have seen their profits under pressure.

Analysts have said for some time that there were too many players in the market and that rationalisation was needed. Payless and Do It All hold third and fourth place in the DIY market, each with a market share of about 3.9 per cent of the total market, according to estimates from Verdict Research, the retail research group.

Combining the two would put the merged chain in second place after B&Q, which is owned by Kingfisher, the retailer which also owns Woolworths, Comet and Superdrug.

Acquisitive Wm Cook jumps to £9.5m

By Clare Pearson

WILLIAM COOK, the acquisitive Sheffield-based foundry group, achieved a sharp leap in profits during the year to March 31. The pre-tax figure rose by 88 per cent to £9.5m on sales almost doubled from £58.98m to ...m.

Excluding a two-month contribution from Lloyds (Burton), the steel caster, pre-tax profits came to £9.1m, a £350,000 improvement over the forecast the company made at the time of its three-for-10 rights issue in January.

Operating profits were £11.36m (£5.85m). The company said that on a like-for-like basis the operating result was £7.5m while that for turnover was £80m.

Since the year-end, the Monopolies and Mergers Commission has mounted an investigation into three of the company's 1989 acquisitions: Lake & Elliot, whose Essex plant has since been closed, Lloyds (Burton), and Armadale, a Scottish foundry bought in March and now closed.

Mr Andrew Cook, chairman, said yesterday he was confident of a "satisfactory" outcome to the investigation. He said that in the cases of Lake & Elliot and Armadale there was now little that Cook could divest "except to the scrap man". In the case of Lloyds (Burton), it should be remembered that there was an absence of potential buyers for such businesses.

He added that since he took control of Cook in 1981 the company had "saved" a net seven foundry businesses, closing only two.

"We feel that we have a strong case to put before the MMC," he said. The company is to present its case on Friday.

On the results, Mr Cook said he foresaw "significant potential for improving profitability" at the company after a period of rapid acquisitional growth. His target was to improve return on sales from 10 to 15 per cent. He did not envisage making any other big acquisitions in the near term.

Earnings per share stood at 45.18p (36.34p). The proposed final dividend is lifted to 8p (6.25p), making 12.5p (9p) for the year.

Thorn EMI US sale to BEI for $22m

By Michael Skapinker

THORN EMI, the music, rental and technology group, said yesterday it had signed an agreement to sell four of the six divisions of Systron Donner, its California-based subsidiary, to BEI Electronics of San Fransisco for $22m (£13.1m).

The four divisions - Inertial, Seaton-Wilson, Edcliff and Duncan Electronics - make sensors and other equipment with a variety of military and commercial applications.

Mr Colin Southgate, Thorn EMI's chairman, said the company had decided to retain the remaining two divisions because of their affinity with the group's existing operations. Safety Systems, one of the divisions to be retained, specialises in systems to prevent fire and overheating in aircraft engines. Mr Southgate said it complemented the group's other security interests. Microwave Products, the second division, fits in with Thorn's radar systems activities, he said.

The two divisions accounted for $38m of Systron Donner's total sales of $87m in the year to March 1990 and for more than half of the subsidiary's profits.

The sale of the Systron Donner divisions forms part of Mr Southgate's strategy of selling businesses which do not have the potential to be internationally competitive. The group has sold more than 60 businesses since 1985. Last month it announced that it intended to sell its lighting interests to GTE of the US. Thorn EMI had intended to sell its UK defence activities but has not been able to find a buyer willing to pay the reported £300m it is demanding.

BAe takes 49% stake in Kelsey

British Aerospace has negotiated a 49 per cent interest in Kelsey Instruments, producer of computer-based destructive systems for static and fatigue test applications in the aerospace, automotive and civil engineering industries.

UK COMPANY NEWS

Cut in contribution to profit sharing boosts pre-tax results by 12%

NFC operating profits fall 3.5%

By Paul Abrahams

NFC, formerly the National Freight Consortium, yesterday announced a 12 per cent rise in pre-tax profits for the half year to March 24. However, operating profits were down 3.5 per cent in what the company described as a generally difficult UK environment. The shares fell sharply on the news by 9p to 127p.

The company, which uniquely among British companies publishes on each reporting date a "best view" of what it thinks its next full-year result will be, downgraded its "best view" for the full year by £8m to £97m (£90.2m) on a possible turnover of £1.65bn (£1.49bn).

The increase in half-year profits from £32.6m to £36.4m was mostly achieved by reducing the contribution to the employee profit sharing scheme from £5.7m to £1.9m. Operating profits fell from £43m to £41.5m.

NFC warned that results from the property division in the second half of the year were likely to off-set any advantages accrued through improved efficiency. The full effects of property slump had not yet worked through, the company said.

Ashley Ashwood

James Watson (left) and Jack Mather: A degree of robustness given a UK trading background that is not really helpful

Mr James Watson, who is due to take over from Sir Peter Thompson as chairman, stressed that the company would continue to invest overseas to reduce its dependency on the UK economy. At present, 28 per cent of profits comes from non-UK operations, mostly in the US.

"The company is showing a degree of robustness given a UK trading background that is not really helpful," he said.

On an increased turnover of £728.8m (£647.5m) operating margins slipped from 6.6 to 5.7 per cent. Earnings per share increased 9 per cent from 4.5p to 4.9p.

Directors declared a third interim dividend of 1.1p per share, making a total of 2.9p (2.45p) per share for the year so far.

The increase reflected the special first interim dividend and the moves being taken to reduce disparity in the level of the four quarterly payments.

Mr Jack Mather, chief executive, said that the transport division, the company's largest, had suffered from the effects of the poor general economic climate in the UK and the government's policy of high interest rates. Turnover at the division increased 14 per cent, but operating profits were down 27 per cent at £12.4m (£17m).

These factors, said Mr Mather, had meant that the volume of goods had fallen as companies reduced stocks. The resulting over-capacity in some sectors had meant that it proved difficult to make price increases stick. Customers were also passing on their financial problems to their distributors, he said.

The logistics and home services divisions had performed well, he said. The increase in profits at the home services division, which includes Pickfords, the removals company, was remarkable given a 40 per cent decline in the number of house purchases in the last year, he added. The division had diversified into overseas and into office and company removals.

The travel division continued to make a loss in a difficult environment. It made a loss of £3m, the same as last year, on a turnover of £34.6m (£31.2m).

See Lex

Reedpack results meet bankers' targets

By Maggie Urry

THE FIRST full-year results from Reedpack, the paper, packaging and office supplies group, since its £608.6m management buy-out from Reed International in July 1988, showed that the group was still meeting its bankers' targets despite higher interest rates and worse trading conditions.

Operating profits were 12.9 per cent higher at £90.1m (£79.4m on a pro-forma basis) in the year to April 1. These profits covered the interest payments of £54.7m by 1.6 times, slightly better than the ratio required by the agreements with banks.

However, the ratios have been adjusted for the next three years reflecting the rise in interest rates. Reedpack has not had to make concessions on terms or repayment timetables as a result. Although the group plans to float on the stock market, bankers are not exerting pressure for an early flotation, Reedpack said.

Mr Peter Williams, chief executive, said the group had withstood difficult trading conditions better than expected and he was confident of a further rise in profits in the current financial year.

He said the group now made nearly a quarter of its profits overseas, mainly in Europe. This is a rise from 19 per cent the year before. This was partly through the faster growth of the European businesses compared with those in the UK, and also because four acquisitions had been made in Europe costing £19m in total. A further rise in the non-UK proportion of profits was planned.

The group's net borrowings stood at £467m at the year-end despite the acquisitions and a £15m loss on translating overseas debts into sterling. Taking these into account, the group's debt level was comfortably below bankers' targets.

Group sales were ahead by 8.3 per cent to £842m and operating margins rose from 10.3 to 10.7 per cent.

Paper was the largest contributor to trading profits, making £35.5m, a rise of more than 17 per cent on sales up 11 per cent at £236.6m. Although trading conditions in the UK were dull, the group's use of waste paper as its main raw material meant all its UK mills were profitable. In Europe, the Dutch mill "achieved exceptionally strong results", the group said.

Packaging trading profits rose by 7 per cent to £30.6m, on sales 10 per cent higher at £456.6m. Flat volume in the UK was offset by strong demand in Europe. Start-up costs on capital projects hit margins but benefits should come in the current year, Mr Williams said.

Trading profits from office supplies rose 15 per cent to £23.9m on sales 16 per cent higher at £258m. The second half saw a slowdown in growth in the office products markets and there was aggressive price cutting, the group said. However, two new distribution centres were opened during the year and the operation is expanding in Europe.

The group's property was revalued to show a surplus of £157m, a rise of 140 per cent on book values, Reedpack said. Planning consent had been given for developing surplus land in Kent. Mr Williams said the group's surplus property would provide a steady stream of income in future years and the group was not under pressure to sell spare land now.

Marley US expansion with £27m purchase

By Vanessa Houlder

MARLEY, the diversified building materials and automotive components group, has made its first move into the US plastic building materials market.

It has agreed to buy the business and net assets of the plastics and wood mouldings division of Di Giorgio Corporation for $45.75m (£27m) in cash. The business, known as D G Mouldings, is the largest US manufacturer of pre-finished plastic and wood mouldings used in the refurbishment of residential and commercial buildings and the manufactured housing sector. In both sectors, it claims a market share of more than 40 per cent.

Marley said that it saw scope for moving the business further into the renovation and industrial markets, which would reduce its exposure to the US housing market.

It also aimed to exchange technical know-how between D G Mouldings and its other plastic building material businesses round the world. The business will be renamed Marley Mouldings and its senior management team will continue the business under its existing US management.

The business is based in Virginia, in the South East of the US, which is the heartland of General Shale, Marley's US brick operation, which it bought in 1986. Marley Mouldings has three manufacturing plants and a distribution facility in Marion, Virginia and further distribution warehouses in Texas and Oregon.

Mouldings for the residential renovation and remodelling sector account for almost half total sales. Mouldings for industrial use and products for the manufactured housing sector both account for a quarter of sales.

In 1989, D G Mouldings made operating profit of $6.7m on turnover of $66.8m. Net tangible assets are expected to be about $25m.

Marley's shares were unchanged at 130p.

Receivers called in at Polysource

By Vanessa Houlder

Receivers were yesterday called into Polysource Industries (UK), a plastic mouldings business based in South Wales.

The shares of its parent company, Polysource Holdings, which is traded on the Third Market, were suspended at 5p as the company and its broker, TC Coombs, tried to strike a rescue deal.

Mr Arthur Dalton of TC Coombs said it was "possible but not probable" that it might be bought for its business or its Third Market quotation.

Polysource Industries, which employs 45 people in its factory near Swansea, did not achieve the sales forecast when the company joined the Third Market via an introduction at the end of last year. The broker attributed this to its dependence on the car industry and microwave oven business which have subsequently seen downturns.

The company is also listed on the Alberta Stock Exchange in Canada.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Acatos & Hutcheson, Saatchi & Saatchi, Warringtons.

Finals- Allied Colloids, Apricot Computers, Argyll Group, Atkins Bros (Hosiery), Brown (N), De La Rue, Great Portland Estates, Marshalls, North West Water, Oriflame International, Powell Duffryn, Reed International, Rowlinson Securities.

FUTURE DATES

Interims-	
Control Techniques	June 11
Hewitin	June 18
Lookers	June 13
Yorkshire Radio Network	June 8
Finals-	
BET	June 18
Bristol Evening Post	June 27
Bucknall Austin	July 3
Cater Allen	June 14
Century Oils	June 7
Claybithe	June 12
Elys	June 11
European Colour	June 13
GEI International	June 19
Halma	June 26
Learmonth & Burchett	June 13
London International	June 14
M & G Second Dual Trust	June 13
Rothschild (J)	June 14
Sornic	June 15
Southwest Water	June 7
Staveley Industries	June 14
Wintrust	June 8

Caution sounded as Vibroplant profits advance 27% to £14m

By Vanessa Houlder

VIBROPLANT, the plant hire group, yesterday announced a 27 per cent rise in pre-tax profits from £11.07m to £14.01m for the year to March 31. Turnover rose by 30 per cent from £54.18m to £70.25m.

However Mr Jeremy Pilkington, chairman and managing director, sounded a note of caution about the year ahead, although he added that the company's current year had started well with trading at or above last year's levels in most areas.

He said that forecasts of construction activity predicted a significant reduction in workload this year, not only for housebuilding, but also in the commercial and industrial sectors which so far have been largely unaffected by last year's rises in interest rates.

The past year saw some weakening in demand in the second half although the south-east was the only market where revenues failed to move ahead.

As a nationwide operator, Vibroplant was able to redeploy plant from the areas that had the biggest downturn in business.

The group made its first UK acquisitions – Bath Plant Holdings and the Britspace cabin hire fleet – during the year. Bath Plant is not expected to make any profit this year, but it is seen as an economic way of establishing a presence in the south-west of England.

In the US, where the company specialises in aerial access equipment rental, it expanded from 12 to 26 locations and made three acquisitions during the year and one in April. Vibroplant said that the markets in which it operated were generally buoyant and further advances were expected in revenues and profitability.

Mr Pilkington said that major acquisitions were unlikely this year, as the company integrated and improved the margins of last year's additions.

Operating profits in the UK increased from £10.44m to £11.82m on turnover up from £33.05m to £39.86m. In the US operating profits advanced from £3.42m to £5m on turnover up from £21.13m to £30.38m.

Earnings per share increased by 18 per cent from 17.32p to 20.4p. A final dividend of 2.38p (1.98p) was proposed, making a total of 3.6p (3p).

COMMENT

Up like a rocket, down like a stick: over the past two years, Vibroplant's share price nearly doubled, then halved. Such volatility – which is at odds with the unglamorous but soundly managed nature of the company – is a striking measure of the change of heart towards the small company and construction sectors. While the popularity of both remains in the doldrums, Vibroplant's share price is unlikely to claw back much of its losses. Nonetheless, assuming pre-tax profits of £15m this year, the shares, up 5p to 144p, look inexpensive on a p/e of 6.5. Vibroplant has several advantages over others in its sector – its northern bias, its modern fleet, its broad customer base and its resilient US earnings – so it should ride out a difficult year better than most.

Warburg director's £639,000

THE highest-paid director of S.G. Warburg, one of the City's leading investment banks, earned £639,000 in the year to March 31, which included £256,000 of long-term performance-related pay.

The bank's pre-tax profits rose by 68 per cent to £187.5m in the same period.

The chairman, Sir David Scholey, was the highest paid director in the same period last year at £559,000, but this year his overall salary dipped to £531,000. This was because he did not receive any long-term performance-related pay this year, as against £251,000 last year.

However, Sir David earned £346,000 in annual performance-related pay, compared to £125,000 last year.

PML holder backs £2m rescue finance package

By Clare Pearson

MR JOSEPH LEWIS, an offshore-based 25.5 per cent shareholder in PML Group, is backing a £2m package of rescue finance for the company, which makes, imports and retails clothing.

The USM-quoted company said yesterday it would be unable to carry on business in its current form unless the rights issue, conditionally underwritten by a vehicle controlled by Mr Lewis, is implemented.

The issue is of unlisted loan stock convertible into PML ordinary shares at 10p, compared with last night's unchanged close of 8½p.

PML's indebtedness stood at £4.3m on May 4. Management accounts showed a trading loss of about £500,000 for the four months to April 30, compared with a profit of £161,000 for the comparable period.

Halden BV, a subsidiary of Mr Lewis' Davenport Financial Services, is the conditional underwriter of the rights issue.

Mr Lewis has been a shareholder in PML since July 1987 when he sold his specialist clothing shops, aimed at Far Eastern tourists in Europe, to the company.

PML says it has been hit by high interest rates and its clothing manufacturing activities affected by the fall in UK consumer spending. It has also been an indirect victim of the downturn in the Japanese stock market and an adverse sterling-yen exchange rate.

PML, which issued a profits warning at the end of April, also yesterday finally announced results for the year to end-December last year.

These showed pre-tax profits of £822,285 (£1.5m) on sales of £35.6m (£27.42m). Earnings per share fell to 1.2p (2.2p). There is no dividend for the year.

FIH sells Berisfords ribbons side to consortium

Ferguson Industrial Holdings is selling the Berisfords ribbons business to a consortium called Startbright, which includes two Berisfords directors.

Total consideration is covered by £1 for the share capital of Berisfords and Clare Textile Holdings and the repayment of £4m of interest free intra-group loans.

The labels division is being retained by Ferguson which is also assuming the £230,000 overdraft of the ribbons business. The sale will be used to cut borrowings and an extraordinary charge of £1.25m will be made in the accounts for the year to February 28.

Berisfords reported profits of £708,000 in the year to February 28 1989 but this was not maintained in the following year.

Optometrics Corp profits marginally higher

Optometrics Corporation, the USM traded optical systems specialist saw pre-tax profits rise to $330,000 (£197,000) from $325,000, after a strong second half resulted in sales of $3.36m, compared with $3.27m, for the year ended March 1990.

Mr Frank Denton, chairman, said the marginal improvement in profits was achieved despite some unusually high costs incurred.

These costs were associated with several accomplishments, he said.

The company absorbed $70,000 of the cost of producing and distributing its first major comprehensive product catalogue. In addition, the US subsidiary absorbed some $35,000 in relocation expenses.

Mr Denton concluded all the indications were that the new financial year would begin with a very strong first quarter.

Tax took $120,000 ($92,000) leaving earnings per common share of $0.021 ($0.023). There is no dividend.

UK COMPANY NEWS

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Fairy-tale; horror story; thriller

Can Saatchi be salvaged in time? Alice Rawsthorn reports

SO FAR Mr Robert Louis-Dreyfus' career as chief executive of Saatchi & Saatchi, the troubled communications company, has read like a corporate horror story.

In the six months since he slipped into the chief executive's seat, Saatchi has been beset by everything from a boardroom *putsch* to a liquidity crisis. It has been haunted by bid speculation and its share price has collapsed. Mr Louis-Dreyfus, like the rest of the board, has had to take a cut in pay.

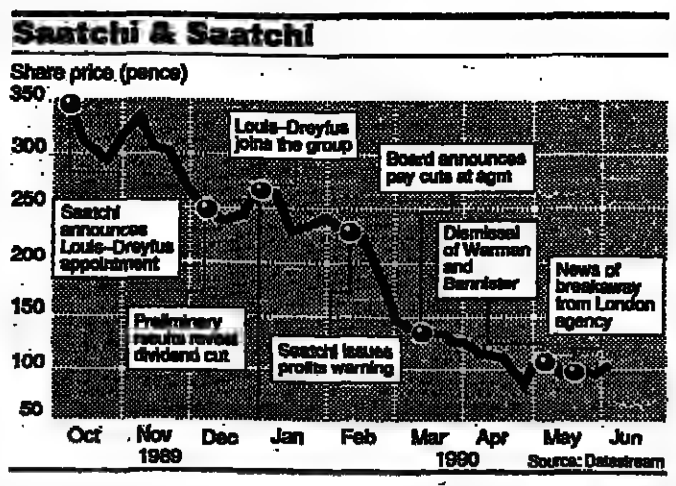
At one o'clock this afternoon the latest chapter in the horror story will unfold when Saatchi's interim results are announced. The results are expected to be awful.

The consensus among analysts is that Saatchi, once one of the world's most successful communications companies, will announce a loss per share of 2.4p, on pre-tax profits down from £21m to £12m, for the first half of the year. It is not expected to declare a dividend.

Luckily for Mr Louis-Dreyfus the stock market has long since accepted a dreadful set of Saatchi interims as a *fait accompli*. It is much more interested in the future: in whether he is succeeding in getting to grips with Saatchi's long-term problems.

Mr Louis-Dreyfus says he had "no illusions" about the extent of the group's problems when he joined in January. Saatchi was burdened by debt – of more than £200m – and was struggling to sell its management consultancies. It was also suffering from a slump in its main advertising markets, the US, UK and Australia. In the longer term it faced the threat of redeeming a £231m convertible preference issue.

What he did not anticipate was the blaze of publicity that accompanies every twist and turn in Saatchi's affairs. The gossip columns have gushed over his dalliance with Ms Kim Basinger, the movie star. The financial pages have pored over Saatchi's corporate problems. He admits to having found it "very difficult" to work in a company "where every decision, however small, can be leaked to the press".



In his first few months, Mr Louis-Dreyfus has concentrated on Saatchi's finances.

On his first day he discovered that its credit lines had expired. The first task for him and Mr Charles Scott – a former colleague who joined Saatchi with him as finance director – was to secure the short-term support of the banks. Their second task was to complete the sales of the management consultancies.

Mr Louis-Dreyfus says that those sales have been dogged by difficulties. He has agreed prices for the companies with their managers, but the negotiations have been bogged down by logistical problems and the difficulty of finding finance.

Yesterday he succeeded in selling Hay, the largest consultancy, but only after months of cumbersome negotiation. The sales of the others are proceeding sluggishly. In the meantime Mr Louis-Dreyfus and Mr Scott are expending effort and energy on businesses they do not want to keep.

They have, however, made progress in the more mundane aspects of Saatchi's finances, such as cost control and tax management. Working capital has already improved by 13 per cent. Mr Louis-Dreyfus says that last year's "grotesque" tax rate of 52 per cent should come down to below 50 this year and to 45 next year.

In the meantime Saatchi is conserving cash: by freezing capital expenditure and omitting the dividend. As for the convertible issue, Mr Louis-Dreyfus says Saatchi may make provisions for its redemption this year, but he has not yet decided what action to take in the long term.

Daunting though Saatchi's financial problems may be, Mr Louis-Dreyfus and Mr Scott have at least had *carte blanche* to tackle them. Saatchi did not have a finance director for nearly a year before Mr Scott's arrival. There were no vested interests to overthrow.

But Mr Louis-Dreyfus' chief challenge is to restructure Saatchi's communications companies. Here he may face opposition from the existing management and from Charles and Maurice, the Saatchi brothers.

When Mr Louis-Dreyfus was first appointed, there was considerable scepticism that the brothers would be able, or willing, to allow him to run the company.

He insists there have not been any problems. "I really enjoy working with the brothers," he says. Since his arrival Mr Maurice Saatchi has concentrated on new business while Mr Charles Saatchi has scrutinised the creative output of Saatchi's main London agency.

Last month's dismissal of Mr Roy Warman and Mr Terry Bannister, two long-standing Saatchi directors, was seen as a test of Mr Louis-Dreyfus' authority. He needed to move them so he could take full control of Saatchi's communications companies and he had his way. Neither of the brothers attended the board meeting which voted on the dismissals.

Mr Louis-Dreyfus can now start to restructure those companies. His overriding objective, as he wades through the quagmire of Saatchi's finances, is to cling on to SSAW and BSB, its international advertising agencies. The future role of the specialist marketing consultancies – such as Siegel & Gale in design and Howard Marlboro in sales promotion – is less certain.

So far the agencies have emerged relatively unscathed from the group's problems. But BSB has lost several large accounts in New York. And a few weeks ago there was a breakaway from SSAW's London agency. A series of substantial account losses and senior staff defections would be crippling. Mr Louis-Dreyfus is putting together an incentive scheme to try to motivate staff and is also finalising plans to reorganise Saatchi's specialist marketing companies.

The agencies also have cultural problems. The Saatchi brothers never really succeeded in translating the dynamism of their original London agency to the rest of the SSAW network. BSB is still scarred by the account losses that followed Saatchi's bid for Ted Bates, the US agency, four years ago.

There are also gaps in both agencies. SSAW needs to expand in West Germany. BSB is weak in France. Both agencies are losing money in Japan. Almost all Saatchi's competitors are in a similar state, but Mr Louis-Dreyfus does not have enough money to fill the holes in his networks.

Moreover the agencies are operating in an increasingly competitive climate. The forecasts for advertising revenue in the US and the UK are far lower than when Mr Louis-Dreyfus first arrived. He has to restore morale at a time when it will be very difficult for the agencies to win new business.

Mr Louis-Dreyfus admits that the task of salvaging Saatchi will be even tougher than he expected.

But he is showing some signs of confidence. He is allowed to exercise his share options this month and, yes, he will be buying.

Channel Express up 22% and acquires Benair

CHANNEL EXPRESS Group, the USM-quoted flower distribution and freighter aircraft service concern, yesterday reported a 22 per cent rise in 1989-90 profits, and the £1.275m acquisition of Benair Group, which is involved in airfreight forwarding.

Benair, comprising Benair Freight and Benair Freight Pte., has been bought from Frederick Leyland & Company, a member of the Western United Group. Benair's seafreight division is not being acquired.

Benair is based at Manchester International Airport, with a depot at Heathrow and other premises in Southampton and at Glasgow, Dublin and East Midlands airports.

Mr Philip Meeson, chairman of Channel, said the acquisition represented an excellent opportunity for the company to expand its activities into freight forwarding.

While Benair complemented Channel's freighter aircraft operations with considerable traffic to the Channel Islands and freight movements between the UK and Ireland, its Far Eastern subsidiaries also provided opportunities in the growth area of the Pacific rim, he added.

The consideration – payable as £385,000 in cash and in Channel shares – included the purchase of an estimated £325,000 of net assets at completion. In 1989 Benair made a proforma pre-tax profit of £150,000 after charging non-recurring costs of £100,000.

Mr Meeson said Benair was expected to make a useful contribution to the enlarged group's profit and to have a positive effect on earnings per share in the current year.

Group pre-tax profits in the year ended March 31 1990 advanced to £1.38m (£1.13m) on turnover 35 per cent higher at £18.06m. Earnings per 10p share came to 8.2p (7.4p) and the recommended final dividend was 1.6p (1.3p) for a total of 2.6p (1.3p) for the year. The chairman added that trading in the current year had commenced satisfactorily in both the group's main business areas.

Quarto spends up to $10m for publisher

Quarto Group, the USM-quoted book and magazine publisher, has purchased Rockport Publishers, of Massachusetts, US, for a maximum $10m (£5.98m).

Like Quarto, Rockport's acts as a packager which sells finished books at a net price to third-party publishers under licence to distribute the books in their home markets.

The initial consideration is $3m cash, with further tranches up to $7m being paid, depending on Rockport's performance between June 1 1990 and December 31 1994.

In the year to December 31 1989, Rockport achieved pre-tax profits of $311,000 on sales of $3.47m. At that date, its net assets were $401,000.

Betterware sharply up to £2.78m

Betterware Consumer Products, direct seller of domestic household ware, announced a sharp improvement in pre-tax profits for the year to February 28 with continuing activities up from £1m to £2.78m, on turnover ahead from £11.23m to £19.19m.

The direct sales division, which includes Betterware, increased its profits by 50 per cent to £2.4m (£1.6m) on a turnover of £10.8m.

After tax of £941,000 (£28,000) earnings per 10p share rose from 12.88p to 18.34p and a final dividend of 5.15p makes 7.3p (5.55p). There is a share option. A one-for one scrip is also proposed.

UK COMPANY NEWS

Leigh Interests on target with £8.4m

By Clare Pearson

LEIGH INTERESTS, the West Midlands-based waste disposal group, increased pre-tax profits in the year to end-March by 39 per cent to £8.35m. This was in line with a forecast made in February when it launched a £35.6m one-for-three rights issue.

The profits advance came despite continuing restrictions imposed on some existing operations and delays in planning and licensing decisions which prevented it from commissioning several new facilities.

During the year the company made nine acquisitions, of which the biggest was Clay Colliers bought for up to £17m last November.

Mr Arthur Kent, finance director, said that acquisitions in aggregate put in about £7m to turnover during the year, so sales growth from existing businesses was about 20 per cent. Group sales were £69m (£51.6m).

Earnings per share rose to 16.9p (13.8p). The final dividend is lifted to 4.88p (4.2p), making 7.1p (6.32p) for the year.

Mr Malcolm Wood, chairman, struck a confident note on the current year. He said that results were now ahead of last time without being boosted by contributions from any of the £8.5m worth of new facilities on which Leigh is still awaiting consents.

"On the assumption that new facilities in which we have already invested will receive the necessary consents during the year", he said he expected strong organic growth.

The new facilities range from four clinical incinerators to a large chemical incinerator in Doncaster.

Last year, interest payments took about £1.76m (£482,000) from profits. Acquisitions cost the company about £24.5m, of which £8.5m is payable on deferred terms.

Leigh has about £15m in the bank in the wake of February's rights issue. The funds were earmarked for installation of new plants and upgrading of existing treatment and disposal sites.

Malcolm Wood: expects strong organic growth

COMMENT

These results contained a healthy strengthening of margins in the second half, helping to boost confidence in Mr Wood's bullish-sounding comments on the outlook for the current year. But the big imponderable in forecasting the outturn is whether and when consents on new facilities will come through. Depending on the degree of optimism on this point, pre-tax profits estimates vary between £13.5m and about £15m. The prospective p/e on the shares, which like those in rest of the waste disposal sector stand on a big premium to the market, thus ranges between about 17 and 19. This looks a fair compromise between the twin market views of Leigh as one of the less exciting companies in its peer group, and the one most vulnerable to take over.

Sanderson Electronics gains 18% in half year

By Alan Cane

SANDERSON Electronics, USM-quoted computing services company which holds a 49 per cent stake in General Automation, the US minicomputer company, increased pre-tax profits by 18 per cent in the half year ended March 31.

Profits were £1.78m (£1.51m) on sales of £6.45m (£6.12m). Earnings per share rose 22 per cent from 11.5p to 14p and the directors are recommending an interim dividend of 3p, a 43 per cent increase.

The result was achieved despite an increase in interest payable to £146,000, against a credit last time of £22,000. The company said that immediate progress depended on the effects of the present uncertainty and high interest rates.

Revenues from maintenance, software licence fees and support contracts provided the group and its associated companies with a turnover of more than £15m.

Sanderson is a specialist in the "Pick" operating system, software which is well regarded by programmers although it has not achieved the widespread popularity of AT&T's "Unix" system.

Mr Paul Thompson, chairman, said the group had 700 employees in 30 offices in 11 countries. The group and its associated companies have installed about 8,000 computer systems with an annual turnover of over £50m.

Sanderson has the right to increase its holding in General Automation, which is trading profitably, to 51 per cent at a total cost of £130,000.

Currency gains boost Butte to £14,000 profit

By Kenneth Gooding, Mining Correspondent

CURRENCY exchange gains enabled Butte Mining, which has silver, gold and base metal interests in Montana and a zircon processing company in Staffordshire, to record a £14,000 taxable profit for 1989.

However, an extraordinary charge of £185,000 produced a net loss of £171,000. In the previous financial period – from August 12, 1987, to December 31, 1988 – Butte suffered a pre-tax loss of £33,000 and a net loss of £365,000.

Butte said the extraordinary charge was a provision made against the possible non-recovery of a debt in respect of a disputed transaction.

The company refused to give details because the matter is *sub judice*.

Turnover last year was £1.2m and there was an operating loss of £797,000 compared with a loss of £474,000 in the previous 17-month period. Bank interest brought in £180,000 (£656,000) and there was a currency exchange gain of £647,000 (a loss of £315,000). Interest took £16,000 (nil).

Lombard North Central hit by interest rates

By David Barchard

PRE-TAX PROFITS at Lombard North Central, the finance house owned by National Westminster Bank, fell sharply to £23.9m during the six months ending March 31 1990. That compared with £42.9m. Earnings per share fell from 17.6p to 9.8p.

Sir Hugh Cubitt, chairman, said that profits had been depressed by high interest rates which had reduced demand and put pressure on margins.

He warned that profits in the second half would be unlikely to reach the level of the same period last year, though he was confident that profitability would improve significantly when interest rates fell.

Lombard has raised its charge for bad and doubtful debts in the total lending book by 0.2 percentage points.

The finance houses of the big four clearing banks all reported poor results during 1989 and these figures suggest that they will fare even worse in 1990 as consumer demand slackens under the impact of high interest rates.

NEWS DIGEST

26% rise at CML Micro

CML MICROSYSTEMS' first-half growth was maintained in the second and pre-tax profits rose 26 per cent from £3.33m to £4.2m for the full year to March 31.

Turnover advanced to £13.67m (£11.41m) and operating profit came out at £3.45m (£2.93m). Net interest receivable totalled £727,000 (£387,000). After tax of £1.48m (£1.2m), earnings worked through at 15.5p (12.13p) per share. The proposed dividend for the year is lifted to 2.3p (1.8p), an increase of 27 per cent.

Mr George Gurry, chairman, said that the semiconductor business had shown firm growth and that increased sales and operating profits were posted by both the UK and US operating companies, with cellular radio, telecommunications and private mobile radio as the main product areas.

The expected second-half improvement in the group's traffic operations was not fully realised and steps to improve profitability have been initiated.

CLF results hold back CLF Yeoman

A disappointing performance by the CLF Holdings subsidiary left pre-tax profits for CLF Yeoman in the year to the end of February I£2.66m lower at I£11.74m. Directors said that the business was being reorganised and rationalised.

Legal proceedings against SG Warburg and Linklaters and Paines for advice given during the acquisition of CLF were initiated in April.

Gross income for the Dublin-based holding company with interests in vehicle and equipment leasing was almost doubled at I£135.06m (I£71.34m). After a tax credit of I£2.28m (I£1.72m charge) earnings per share were 20.4p (31.4p). A final dividend of 4.15p is proposed for a total payment of 6.65p (2.75p).

Bristol Waterworks increases to £4.2m

Bristol Waterworks, in which the French Générale des Eaux and Lyonnaise des Eaux hold stakes of 29.9 per cent and 18 per cent respectively, increased its surplus after tax from £3.36m to £4.2m in the year to March 31 on turnover which had risen from £32.33m to £37.9m. Tax took £444,000 compared with £382,000.

The board has declared a final dividend of £2.45 per cent on the 4.9 per cent (formerly 7 per cent) maximum consolidated ordinary stock and the 4.9 per cent maximum ordinary stock and £1.75 per cent on the 3.5 per cent (formerly 5 per cent) maximum ordinary stock.

Blenheim makes US buy for initial $34m

Blenheim Exhibitions Group, the organiser of trade exhibitions and conferences, has acquired Bruno Group of the US for an initial consideration of $34.1m (£20.3m), comprising 1.76m Blenheim new ordinary shares and $8.6m (£5m) cash from Blenheim's own resources.

The Ianuzzi family, shareholders of HA Bruno since 1965, are taking some $12.2m of Blenheim shares as initial consideration, £8.6m of which they have undertaken to retain for two years, and only $5m (£3m) cash. Mr Ralph Ianuzzi Jr., one of the vendors and chief operating officer of HA Bruno will join the board of Blenheim.

Deferred consideration, payable in shares, is equal to eight times pre-tax profits for the year ended December 31 1990 less $30m (£17.9m) up to a maximum of $60m (£35.8m).

Bruno Group is a leading organiser of exhibitions in New York, Chicago, Dallas and Boston. Its revenues over the three financial years ended December 31 1989 increased from $6.2m (approximately £3.7m) to $11.8m (£7m).

Burmah buys fuels retailer in Australia

Burmah Oil has acquired Astron Petroleum, an Australian fuels marketing concern. Burmah is buying 90 per cent of the business and assets of Astron, whose sites have been valued at A$22m (£10m).

Astron is a privately owned and run company, which was founded some five years ago. The business has grown rapidly and currently comprises 23 stations in Melbourne, 14 of which are company owned, the remainder being leased.

Chillington lower in second half

A sharp fall in second-half profits from £2.04m to £1.3m left the Chillington Corporation, the engineering, plantation and trading concern, with £4.22m for the whole of 1989, an 8 per cent rise on the previous year's £3.91m.

Mr Konrad Legg, the chairman, said trading conditions in the UK remained difficult and, unless there was an early reduction in interest rates or a sharp increase in commodity prices, it would be a challenge to match the 1989 results in the current year.

Turnover for the year grew 9 per cent to £70.44m (£64.63m). Tax charge was £881,000 (£592,000) and fully diluted earnings per share were 6.1p (10.4p) on a net basis, or 6.7p (10.4p) on a nil basis.

The recommended final dividend is 5p (same) for a total of 8.25p (8p) and again holders may elect to receive shares in lieu of cash.

UK SHARE OWNERSHIP DISCLOSURE

Friday June 1, provisions of the Companies ... 1989 came into force requiring an investor ...ning 3 per cent or more of a UK public ...pany to declare this ownership. The previous ...l at which disclosure had to be made was 5 ... cent. The Financial Times will be printing a ...mary of Stock Exchange announcements of ...losures of holdings of between 3 per cent and ...er cent. Announcements included in today's ...le are those made on Friday and Monday for ...ch space permits inclusion. Further tables will ...ear each day this week. Those announcements ...wded out today will appear tomorrow.

...Y

...companies in which the stakes have been disclosed are shown ...bold.

...For each, the names of the investors are followed by the shares ...hey hold, in thousands, and the percentage this represents of ...he company's total shares outstanding.

...oldings
...more Investment Management 2,586 ...%)
...dian Royal Exchange 2,396 (3.48%)

...dustries
... Management 1,555 (4.44%)

... Mead Vickers
...h Airways Pension Fund 475 (3.45%)
...ident Mutual Managed Pensions ...s 500 (3.64%)

...en Petroleum
...wort Investment Trust 1,684 (3.26%)
...wort Overseas Investment Trust ...(3.20%)
... Brunner Investment Trust 2,394 ...%)

[illegible]
... International Group Pension Trustee ...(3.74%)
...l Exchange Trust 530 (3.6%)
...ish Amicable Investment Managers ...(3.50%)

... Computing
...s Electronique 478 (-%)
...sh Amicable Investment Managers ...%)

...e Group
...ential Assurance Company 882 ...%)

... Streamlines
...Sally Ann Hill 297 (3.48%)

...
...nglish Trust 545 (3.40%)
...l Insurance Asset Management 852 ...%)

...ier Provident
...able Life Assurance Society 2,150 ...%)
...ential Portfolio Managers 2,027 ...%)

... Group
...sh Amicable Investment Managers ...(3.83%)

[illegible]
...lonia Investments 475 (4.65%)
... Burns 374 (3.60%)
...nerson Property Investmt. & Property ...409 (4.16%)

...eisure
...Merchant Bank 880 (3.60%)

...e Investment Trust
...Pearson 338 (4.70%)

...Secure Homes
...y Life 789 (3.61%)

...ish Bank Corporation
...k Nominees 2,809 (4.80%)
...on Premier Investment Trust 2,805 ...%)
...ish Provident Institution 2,750 ...%)
... Bank Nominees 1,875 (3.30%)
...egg 2,950 (4.90%)

...acific Resources
...re Group Investment 2,888 (3.32%)

...Metals
...ensions 687 (4.70%)

...oldings
...ies (PF) 386 (3.59%)

[illegible]
...age Brothers Plc Employees Share ...200 (4.87%)
...able Life Assurance Society 128 ...%)

...ommunications
...s Provident Life Office 508 (4.75%)

Universities Superannuation Scheme 500 (4.08%)

Automated Security (Holdings)
Scottish Amicable Investment Managers 4,622 (4.30%)

B.S.G. International
Provident Mutual Life Assurance Association 9,786 (4.82%)
Scottish Amicable Investment Managers 6,547 (3.22%)

BDA Holdings
Hanover Nominees 448 (4.94%)

BICC
Prudential Portfolio Managers - (3.03%)

BPB Industries
Abu Dhabi 19,100 (4.62%)
Nutraco Nominees 15,634 (3.76%)
Prudential Corporation 17,087 (4.14%)

BPP Holdings
Kleinwort Benson Investment Management 711 (3.60%)
NFU Mutual Insurance Society 598 (3.00%)

BTP
British Airways Pension Trustees 2,585 (4.40%)
Imperial Chemicals Workers Pension Fund 1,863 (3.18%)

BWD Securities
British Airways Pension Fund 788 (4.40%)
D.H. Sherlock 558 (3.20%)
Estate of J.M. Rayner Deceased 588 (3.40%)
J.A. Gibson 521 (3.00%)
M.J. Woodhead 550 (3.20%)
F.H.S. Barker 580 (3.30%)
T.C.J. Wood 683 (3.90%)

BZW Convertible Investment Trust
Merchant Navy Officers Pension Fund 2,478 (4.91%)

Baillie Gifford Shin Nippon
Equity & Law Life Assurance Society 583 (3.32%)

Baird (William)
Prudential Corporation - (3.89%)

Baltic
Abbey Life 1,889 (4.30%)

Berkeley Group
Scottish Amicable Investment Managers 1,778 (4.27%)

Berry, Birch & Noble
DRG Pension Fund 289 (4.76%)
MC Geering 305 (3.28%)

Bet
Prudential Corporation 27,987 (3.76%)

Biotechnology Investments
Bank of Scotland (Stanlife) London 3,128 (4.75%)
Barings Nominees 3,589 (3.94%)
Glyns Nominees 3,094 (4.60%)

Boddington Group
J A Devenish 8,607 (3.79%)

Bodycote International
Murray International Holdings 789 (3.05%)
Provincial Insurance 788 (3.10%)

Boots Company
Prudential Portfolio Managers Pensions 37,478 (3.82%)

Brandon Hire
Stock Beech & Co 489 (4.59%)

Britannic Assurance
Wesleyan Assurance Society 2,549 (4.27%)

British & Commonwealth Holdings
Abu Dhabi Investment Authority 13,008 (3.60%)
Prudential Corporation 11,845 (3.28%)

British Building & Engineering Appliances
Hanover Nominees 60 (4.98%)
Wesleyan & General Assurance Society 42 (3.47%)

British Empire Securities and General Trust
Equitable Life Assurance Society 6,428 (4.82%)

Bromsgrove Industries
Dundee and London Investment Trust 1,100 (3.13%)
R.L. Arnold 1,083 (3.03%)

Brown & Tawse Group
Prudential Corporation 1,046 (3.26%)

Brown (N) Group
Prudential Group 1,848 (3.08%)

Bryant Group
A C Bryant Settlement 9,880 (4.22%)
Royal Insurance Asset Management 7,914 (3.84%)

Bullers
British Steel Pension Fund 1,800 (3.67%)

Bullough
Prudential Corporation 8,787 (7.44%)

Butler Cox
DRG Pension Fund 170 (3.18%)
Mr C J Woodward 224 (4.19%)

CIA Group
Ian Richard Rogers 432 (4.11%)

CSC Investment Trust
Portfolio Mgt. Clients of MIM & Invesco MIM 61 (4.93%)

Cable & Wireless
Prudential Portfolio Managers Pensions 38,272 (3.65%)

Campari International
AAF Investment Corporation 475 (4.70%)

Campbell & Armstrong
3i Group 472 (3.31%)
Royal Exchange Trust 455 (3.19%)

Candover Investments
British Airways Pension Fund 578 (3.05%)

Carlisle Group
Benevo Nominees 700 (3.05%)
Scottish Amicable Investment Managers 750 [illegible]

Cattle's (Holdings)
Joseph and Annie Cattle Trust 3,100 (3.13%)

Cauldon Group
B W Filton [illegible]
B.W. Filton [illegible]
J A Bird [illegible]
J.A. Bird [illegible]
M J Norris [illegible]
M.J. Norris [illegible]

Central Motor Auctions
M & G Investment Management 873 (3.85%)

Century Oils Group
Fuchs Interest 1,530 (4.83%)
National Westminster Bank 1,167 (3.67%)

[illegible]
Friends Provident Unit Trust & Pension Funds 395 (3.19%)

Chemring Group
London Life 188 (3.90%)
NFU Mutual & Avon Group 112 (5.64%)
Universities Superannuation Scheme 115 (3.24%)

Chieftain Group
Equity & Law Life Assurance Society 250 (3.03%)
Rank Xerox Pension Fund 390 (4.70%)
Rolls Royce Pension Fund 384 (4.65%)

Chillington Corporation
Merchant Navy Officers Pension Fund 988 (4.55%)

Chloride Group
ICI Investment Management 7,950 (3.35%)

City Site Estates
TR Property Investment Trust 803 (3.15%)

Clayhithe
Scottish Amicable Investment Managers 4,883 (3.93%)

Close Brothers Group
Equitable Life Assurance Society 1,221 (3.32%)

Clyde Petroleum
Abbey Life 11,479 (3.03%)
Prudential Portfolio Managers 10,988 (3.24%)
Queen Anne's Gate Asset Management 12,463 (3.69%)

Clydesdale Investment Trust
Abbey Life Assurance Company 498 (3.44%)
British Telecom Staff Superannuation Scheme 885 (3.69%)

[illegible]
Gartmore Investment Management 1,176 (4.58%)

Colroy
Julia Bamber 578 (4.37%)

Continental Microwave
Prudential Portfolio Managers 714 (4.35%)

Control Techniques
[illegible] Nominees 880 (3.80%)

Cooper (Alan) Holdings
NatWest Backets Nominees (HRS Account) 335 (3.2%)

Cooper Clarke Group
Breco Nominees & Kingfisher Pension Trustee 315 (-%)
Friends Prov. Unit Trst Mgrs & Mngd Pensn Fnd345 (-%)

Copson (F)
Imperial Group Pension Trust & Investments 432 (3.71%)
Scottish Amicable Investment Company 349 (3.01%)

[illegible]
Mr Ian A Buchanan 137 (3.03%)

[illegible]
National Westminster Bank 1,603 (3.08%)
Scottish Mutual Assurance Society 1,570 (3.13%)

Croda International
Prudential Corporation 6,118 (4.76%)
Scottish Amicable Investment Managers 4,655 (3.49%)

Cropper (James)
British Aerospace Pension Fund 355 (4.55%)
Mr. Philip A. Cropper 280 (3.19%)

[illegible]
Best Holdings 572 (3.53%)
I.R. Maxwell 1,000 (3.83%)
Universities Superannuation Scheme 800 (3.05%)

Danae Investment Trust
Malcolm H.D. McAlpine's 1977 Settlement 250 (3.45%)

Daniels (S)
Mr G.A. Kiernan 363 (4.51%)

Darby Group
National Westminster Bank Group 448 (3.07%)

[illegible]
B W D Securities 1,137 (-%)
Mr A Waddilove 611 (-%)
Mr S M Waddilove 611 (-%)
Scottish Amicable Investment Managers 703 (-%)

De La Rue Company
Prudential Corporation 5,783 (4.10%)

Derwent Valley Holdings
Royal Exchange Trust 274 (3.93%)
TR Property Investment Trust 250 (3.59%)

Dickie (James)
Mr C.A. Milton 274 (4.44%)
Mr R. Taylor 244 (3.96%)

[illegible]
B O Blake 2,243 (4.74%)
B. Prosbrook 2,254 (4.76%)
R J Byrne 1,738 (3.67%)

[illegible]
Kleinwort Benson Group 376 (3.63%)

Dowding & Mills
Legal & General Assurance Society 3,915 (3.65%)
Prudential Corporation 3,810 (3.21%)

[illegible]
C.D. Nominees 346 (3.50%)
Mrs Mary A Galloway 335 (3.41%)
Mrs Patricia M Gerrish 312 (3.18%)
Prudential Group 321 (3.40%)

[illegible]
D.C. Thomson 1,306 (3.81%)

[illegible]
Prudential Corporation 8,198 (3.55%)

[illegible]
Prudential Portfolio Managers 7,251 (3.59%)

[illegible]
Equitable Life Assurance Society 1,011 (4.69%)
ICI Investment Managers 1,058 (3.86%)
Refuge Group 1,049 (3.83%)

[illegible]
Mars Security 800 (4.85%)
Scottish Amicable 600 (3.95%)

[illegible]
BS Pension Fund Trustees 3,800 (3.85%)
British Rail Pension Trustees 4,830 (3.52%)

[illegible]
South Yorkshire Pensions Authority 3,830 (4.6%)

[illegible]
Baillie Gifford & Co 2,919 (4.47%)

[illegible]
M & G Investment Management 1,800 (4.79%)

[illegible]
PGK Tucker 25 (4.99%)

F & C [illegible]
Foreign and Colonial Investment Trust 3,160 (3.84%)

FII Group
Prudential Corporation 483 (3.37%)

FKB Group
British Airways Pension Fund 1,140 (4.18%)
Scottish Amicable Investment Managers 1,262 (4.60%)

FKI
Prudential Corporation 14,401 (3.26%)

FR Group
British Airways Pension Fund 2,558 (3.40%)
Legal & General Investment Management 2,977 (4.00%)

Fairey Group
Derek John Kingsbury 1,160 (3.50%)
Phoenix Insurance Company 1,286 (3.90%)

Farnell Electronics
Baillie Gifford 5,329 (4.17%)
Scottish Amicable Investment Managers 4,157 (3.25%)

Ferrum Holdings
Bank of England Pension Fund 850 (3.80%)

Ferry Pickering Group
Courtaulds - (4.14%)
Friends Provident Life Office 158 (4.03%)
Imperial Group Pension Trust & Investments 484 (-%)

First Charlotte Assets Trust
Merchant Navy Officers Pension Fund 3,500 (4.68%)
Prudential Corporation 3,200 (4.28%)

First Ireland Investment Company
AIB Investment Managers 1,152 (3.94%)
Grofund Institutional Int. Equity Fund 1,450 (4.63%)
Grofund International Equity Managed Fund 1,100 (3.67%)

First Leisure Corporation
Legal & General Investment Management 5,153 (3.73%)

First National Finance Corporation
Prudential Portfolio Managers 5,480 (3.40%)

Fleming Claverhouse Investment Trust
Refuge Group 765 (3.83%)

Fleming High Income Investment Trust
National Westminster Bank 1,022 (4.09%)

Fleming International High Income Investment Trust
Equitable Life Assurance Society 4,082 (3.62%)

Fleming Japanese Investment Trust
Prudential Corporation 3,888 (4.79%)

Fleming Universal Investment Trust
Guardian Royal Exchange 2,213 (3.30%)

Foster (John) & Son
Trustees of Dowty Group Pension Scheme 456 (4.08%)

Frogmore Estates
D J Cope 1,477 (3.70%)
S S Conway 1,343 (3.40%)
Scottish Amicable Investment Managers 1,686 (4.20%)

Frost Group
Morgan Grenfell Group 660 (4.80%)

Fuller Smith & Turner
Miss A B Earle 228 (3.00%)

[illegible]
British Telecom 450 (3.33%)
Postel 750 (5.56%)

Gabicci
NCL Nominees 888 (3.07%)

Galliford
Frederick Thomas Patten 3,800 (4.47%)

Gardiner Group
Gartmore Investment Management 1,822 (3.20%)
State Street London 1,827 (3.04%)

General Accident Fire And Life Assurance Corporation
Morgan Grenfell Group 7,164 (%)
Prudential Corporation 7,428 (%)

General Consolidated Investment Trust
Kleinwort Benson Investment Management 1,575 (4.35%)

Glasgow Income Trust
Invesco Mim 1,130 (3.60%)

Globe Investment Trust
Prudential Corporation 26,767 (4.87%)

[illegible]
Abu Dhabi Investment Authority 6,300 (3.09%)

Goal Petroleum
Abbey Life 5,488 (4.10%)

Govett American Endeavour Fund
Berkeley Govett 2,700 (%)

Govett Strategic Investment
NatWest Investment Bank 3175 (3.39%)

Gowrings
Mrs Clarissa Gladwell 359 (3.90%)
Mrs Rosemary Carvalho 353 (3.90%)
Thomas Crimble 355 (3.90%)

Graig Shipping
Scottish Amicable 415 (3.15%)

Grand Central Investment Holdings
Royal Exchange Trust 1,882 (3.80%)

Granada Group
Abu Dhabi Investment Authority 14,580 (4.84%)

Greene, King & Son
British Steel Pension Fund 2,000 (4.76%)

Greenwich Communications
The First Gresham Pension Fund 325 (4.64%)

Guidehouse Group
Gresham House 900 (3.75%)

Hall Engineering
D R Tudor 1,717 (3.00%)
J Hall 1,716 (3.00%)
R N C Hall 1,096 (3.00%)

Halma
Friends Provident Life 3,742 (3.80%)
Mr D S Barber 4,173 (4.20%)

Hampson Property
ICI 5,738 (4.41%)
Prudential 1,190 (3.30%)

Hanson
Prudential 172,188 (3.60%)

Hardanger Properties
Guardian Royal Exchange 294 (3.95%)

Hawker Siddeley
Guardian Royal Exchange 9,889 (3.01%)

Hawthorn Leslie Group
Prudential Corporation 8,825 (4.66%)

Heath (C E)
Scottish Amicable Investment Managers 2,026 (-%)

Henderson Highland Trust
Ocean Nestor Pension Scheme 800 (3.08%)

Hepworth
Prudential Corporation 8,385 (4.89%)

[illegible]
Abbey Life - (3.47%)
Friends Provident Life - (3.74%)
Scottish Widows - (4.20%)

Hewitt (J) & Son (Fenton)
Friends Provident Unit Trust Managers 125 (3.70%)

Heywood Williams
Kuwait Investment Office 2,481 (4.69%)

Highcroft
Mrs F H Kingston 922 (3.72%)

[illegible]
Foreign & Colonial 847 (3.75%)
Friends Provident 1058 (4.69%)

Hillsdown Holdings
Prudential Corporation 21,643 (4.06%)

Hollas Group
Gartmore Investment Management 1,686 (3.55%)

Honorbilt
Gartmore 5,389 (7.10%)
Video Store Group 3,330 (4.40%)

Hunterprint
British Gas Pension Funds 891 (3.02%)
St Ives 820 (4.35%)

Ibstock Johnsen
Bowater 9,840 (-%)

Iceland Frozen Foods
Abbey Life 2815 (3.29%)

Inoped International
BICC Group 50 (3.66%)
Dundee & London Investment Trust 400 (3.68%)
Dundee and London Investment Trust 400 (3.68%)
Royal Exchange Assurance 350 (3.66%)
Royal Exchange Trust Company 350 (3.22%)
Stock Beech 821 (4.76%)

Johnson Group Cleaners
Associated British Engineering Pension Fund 20 (4.25%)

Johnson Matthey
Schroeder 8,880 (4.8%%)

Kalon Group
Royal Bank of Scotland Edinburgh Nominees 4,150 (3.01%)

Kenmare Resources
Allbank Nominees 1,800 (-%)
Chase Nominees 1,490 (-%)
Robert Flemming Nominees 2,440 (-%)

Kleinwort Charter Investment Trust
Legal and General Investment Management 2,454 (3.63%)

Kunick
Prudential Portfolio Managers 8,103 (4.65%)

Lap Group
Scottish Amicable Investment Managers 4,658 (3.56%)

Lloyds Bank
Provident Mutual 37,082 (3.00%)

Locker (Thomas) Holdings
Redbird Holdings 440 (4.40%)

Logica
Barclays Nominees (Lombard Street) 1,888 (3.10%)
F & C Nominees 2,389 (3.89%)

M.L. Holdings
MIM and Invesco MIM 2,800 (-%)

[illegible]
Guardian Royal Exchange 1,108 (4.04%)

MB International
Holborn Bare Nominees (Prudential Corp.) 840 (3.42%)
Mrs P. Snipe 894 (3.26%)
Provident Mutual Life Assurance Association 1,350 (4.98%)
Provident Mutual Nominees Ltd 1,300 (4.74%)
Scottish Amicable Nominees 970 (3.54%)

MTM
British Airways Pension Fund 2,160 (4.35%)

Macallan-Glenlivet
Prudential Corporation 1,880 (3.69%)

Manders (Holdings)
Imperial Group Pension Trust & Investments 1,465 (4.98%)

Markheath Securities
Paul Andrew Bobroff 5,855 (4.60%)

Marley
Prudential Corporation 9,040 (3.24%)
Universities Superannuation Scheme 9,250 (3.32%)

Marling Industries
3i and 3i Group 1,051 (3.40%)
British Airways Pension Fund 1,355 (4.39%)

Marshalls
Ibstock Johnsen 3,900 (4.23%)
NFU Mutual Insurance Society 3,359 (3.68%)
Prudential Portfolio Managers 5,166 (5.60%)

McCarthy & Stone
Scottish Amicable Investment Managers 2,388 (4.70%)

Mecca Leisure Group
Provident Mutual 11,341 (3.70%)

Melville Group
Abingworth 1,500 (3.83%)

Menzies (John)
D F Ramsay 1,669 (-%)
Prudential Corporation 2,881 (-%)

Metro Radio Group
Portsmouth & Sunderland Newspapers 401 (4.20%)

Metsec
Royal Insurance 805 (3.32%)

Microgen Holdings
Legal and General Investment Management 1,687 (4.46%)

Mid-States
Merchant Navy Rating Pension Fund 1,705 (3.61%)

More O'Ferrall
Independent Newspapers Plc 1,275 (4.99%)
MIM (Nominees) Ltd 1,051 (4.15%)
Provident Mutual Life Assurance Association 800 (3.13%)

Mountview Estates
Mrs A. Williams 141 (3.07%)

New Cavendish Estates
Laurentian Financial Group 815 (4.40%)

Newman Tonks Group
3i Group 3,229 (3.15%)

Normans Group
Chatsworth Management Services 2,100 (3.17%)
Courtaulds Pension Investment Trustee 2,738 (4.13%)
Equitable Life Assurance Society 2,885 (4.35%)

[illegible]
Prudential Corporation 4,360 (3.59%)
Scottish Amicable Investment Managers 4,855 (3.99%)

[illegible]
Caledonia Investments - (3.92%)

Optical and Medical International
Chatsworth Management Services 2,086 (4.65%)
Scottish Amicable Investment Managers 1,715 (3.86%)

Parkfield Group
Scottish Amicable Investment Managers 2,195 (4.07%)

Parkway Group
British Airways Pension Fund 1,749 (-%)
Prudential Corporation 1,381 (-%)

[illegible]
National Westminster Bank 800 (3.20%)

Powerscreen International
Cooperative Insurance 2,885 (3.76%)
Legal & General Investment 2,805 (3.67%)

Priest (Benjamin)
Tamlleo & Starees 1,741 (4.32%)

Prior
Scottish Amicable Investment Managers 200 (3.39%)

Quadrant Group
Bishopsgate Investment Management 1,100 (3.50%)

Quotient
Courtaulds CIF Nominees 885 (4.06%)
David W. Fryer-Kelsey 500 (3.66%)
Mrs G.M. Simon 607 (4.44%)

Radio Clyde
Scottish Amicable 323 (3.60%)

Ranks Hovis McDougall
Prudential Corporation Group 12,007 (3.44%)

Reliance Security
F & C Smaller Companies 405 (3.93%)

Reliance Security Group
F & C Smaller 405 (3.88%)

Richmond Oil & Gas
Gartmore Investment Management 2,836 (3.90%)

River & Mercantile Geared Capital & Income Trust
Kleinwort Benson Investment Management 695 (4.95%)

Robertson Group
Chatsworth Management Services 1,200 (3.50%)
Legal & General Assurance Society 1,196 (3.52%)
Prudential Corporation 1,026 (3.01%)

Rowe Evans Investments
F & C Pacific Investment Trust 1,700 (3.75%)

Scott & Robertson
Scottish Amicable Investment Managers 745 (4.87%)

[illegible]
Diana Fisher 1,011 (4.89%)
Imperial Group Pension Trust 679 (3.29%)
Refuge Assurance 624 (3.02%)

[illegible]
M & G Investment Management 272 (4.00%)

Sirdar
Allied Textile Companies 1,850 (3.46%)
Dr & Mrs J.H. Tyrrell 1,800 (3.37%)
Miss C.J. Tyrrell 2,528 (4.73%)
Mrs S.G. Ainclie 2,098 (3.92%)

Smith (James) Estates
Mr Colin George Snart 541 (-%)
Mr John Paul Denmee 727 (-%)

Stratagem Group
Banque Paribas 180 (4.60%)

Sutherland Holdings
SEB Investment Management 2,000 (3.80%)
Unichips Finance 2,507 (4.80%)

TR Technology
Scottish Amicable Investment Managers 1,673 (4.80%)

TV-am
Scottish Amicable Investment Managers 2,070 (3.12%)

Tarmac
Prudential Corporation 30,526 (4.22%)
Scottish Widows Investment Management 24,269 (3.36%)

Taylor Woodrow
Morgan Grenfell 13,416 (4.08%)

Teredo Petroleum
Royal Bank of Canada - (3.28%)

The Company of Designers
Lloyds Bank 564 (3.25%)

The Fleming American Investment Trust
Natwest Investment Bank 2,618 (3.95%)

Thompson Clive Investments
Raguge Group 600 (4.70%)

Thorn EMI
Guardian Royal Exchange 10,295 (3.55%)

Tinsley Robor
Royal Exchange Trustee 985 (-%)

Tomkins
ICI Investment Management 4,751 (3.69%)

Torex Hire
Friends Provident Unit Trst Mgrs/Life Office 410 (4.15%)

Transport Development Group
British Telecom Staff Superannuation Scheme 4,674 (3.22%)
Prudential Corporation 6,761 (4.66%)

Tribune Investment Trust
Viscount David Ednam 2,350 (4.56%)

URS International
ANZ Merchant Bank 14,250 (4.90%)

Unigate
Prudential Corporation 8,364 (3.61%)

Vibel Holdings
Imperial Group Pension Trust 1,405 (-%)

[illegible]
Legal & General Investment Managers 715 (4.61%)

WSP Holdings
Prudential Portfolio Managers 332 (3.29%)
Sun Alliance Equity Unit Trust 359 (3.54%)
Sun Alliance Group 400 (3.96%)

Wace Group
Scottish Amicable Investment Managers 2,877 (4.31%)

[illegible]
Electra Investment Trust 1,080 (4.30%)

Wates City of London Properties
British Airways Pension Fund 4,046 (3.31%)
Legal & General Assurance Society 4,585 (3.76%)
Mr A.T.A. Wates 5,841 (4.89%)
Mr M.E. Wates 5,769 (4.74%)
Prudential Corporation 6,104 (4.99%)
Scottish Amicable Investment Management 5,201 (4.25%)
The Wates Foundation 6,010 (4.91%)

Welcmiller (Barry) International
Gartmore Investment Management 1,289 (3.36%)

Westminster Scaffolding Group
Percy Bilton 348 (3.35%)

COMMODITIES AND AGRICULTURE

Norwegian oil reserves estimate raised by 17.5%

By Karen Fossli in Oslo

STATOIL, THE Norwegian state oil company, has uprated estimates for the country's total oil resources by 17.5 per cent. Following a major in-house study it now puts discovered and undiscovered reserves at 4.52bn standard cubic metres of oil equivalent, up from 3.85bn.

The analysis included data on new geological reservoir horizons, compilation of reservoir data from all oil companies operating on the Norwegian continental shelf and a more thorough review of its own reservoir data.

For natural gas, discovered and undiscovered resources have been revised upwards by 180m standard cubic metres of oil equivalent to 5.5bn.

The greatest change is in estimates for discovered and undiscovered oil reserves south of the 62nd parallel, where Norway's oil and gas field developments are found. New estimates for this region have been revised upwards by 740m standard cubic metres of oil equivalent to 2.8bn.

The analysis, which is undertaken by Statoil annually, forms the basis for the company's petroleum exploration and development strategies.

According to Statoil, Norwegian explorers have discovered two-thirds of the Norwegian North Sea oil and gas reserves, leaving one-third to be found and proven.

In other exploration areas, such as the Barents Sea and off the mid-Norway coast, Statoil made only marginal upwards revisions in 1990 estimates for both oil and natural gas.

The Norwegian Petroleum Directorate, the country's watchdog over energy activities, estimated Norway's recoverable reserves at the end of last year to be 12.38bn barrels, or about 20 years of production at the current rate of 1.7m barrels a day. Statoil's estimates, however, which include undiscovered reserves, suggest that Norway could produce at the current rate for about 45 years.

A senior official with Norway's Oil and Energy Ministry said he was not surprised by Statoil's conclusions, though he said that his ministry had not yet examined the data closely. "The trend which the figures indicate is in line with our expectations," he said.

The official suggested three ways in which Statoil's reserves estimates revision might be explained:

● Field development decisions are usually taken with a safety buffer as regards reserves estimates to enable a "comfortable level of economy."

● Reservoir management over time often allows increases in reserves estimates because of data compilation.

● Technological improvements in reservoir management skills often allows further increases in reserves estimates.

In addition, he explained that there were different methods of evaluating reserves estimates because of the varied reservoir models which were employed.

The NPD, which is to evaluate Statoil's reserves figures, also said that it was not surprised, though it thought the figures could be less conservative than its own data.

"I think that Statoil's message is one positive to an upside, unproven North Sea potential, which is quite in line with our view. It can also be explained by the fact that never before has an oil company analysed in such detail the potential of speculative reserves," an NPD official said.

● Saudi Arabia alone among the members of the Organisation of Petroleum Exporting Countries seems to have honoured the production cut pledged a few weeks ago, according to New York-based Petroleum Intelligence Weekly.

In May, members of the cartel agreed cuts totalling 1.5m barrels a day, but actual Opec production in that month amounted to 23.5 b/d, down only 310,000 b/d, PIW estimates. Both Iran and Iraq pumped at the maximum rate, it says, with flows rising to 3.1m b/d each. And it believes Kuwait continued to pump at 1.8m b/d.

ESTIMATED NORWEGIAN OIL RESERVES (million standard cu m of oil equivalent)

	1990	1989
Oil		
discovered	2,175	1,995
undiscovered	2,345	1,860
Gas		
discovered	2,780	2,750
undiscovered	2,680	2,530

Source: Statoil

Maker of millionaires strikes gold again

Kenneth Gooding examines the flamboyant man who oils the wheels of exploration

PEOPLE WHO provide the money are an important element in the gold exploration process. Murray Pezim, probably the best-known share promoter in North America, is one such person.

His friend, the US comedian Red Buttons, summed up the faith Mr Pezim instils in his clients by saying: "I can guarantee that all of us will go out and buy his stock tomorrow and hold it until it goes in the crapper."

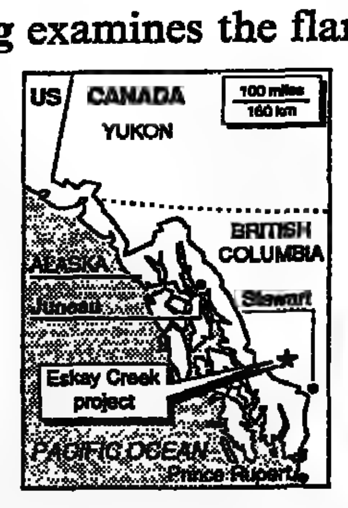
According to his latest biographer, Frank Keane*: "His deals made dozens of millionaires, gave work to hundreds of lawyers, accountants, engineers and stockbrokers. His three marriages left him broke, but not broken, and his wins and losses on the market are legendary.

"Murray Pezim is the eternal entrepreneur and he loves a deal more than the accumulation of wealth."

Flamboyant and larger-than-life, the 70-year-old Vancouver-based promoter's triumphs include the discovery of the Hemlo Gold Camp, which now hosts the Page-Williams gold mine, Canada's biggest.

Even though he was at an age when many people think of retiring, he continued to wheel and deal with his exploration companies.

Now Mr Pezim seems to have hit the jackpot again with the Eskay Creek property, 50 miles north of Stewart in north-western British Columbia.



Murray Pezim: loves a deal more than making money

Two of North America's biggest gold groups – Corona Corporation and Placer Dome – are locked in a battle for a share of Eskay Creek and its gold – evidence indeed that one day it might rank with Hemlo in importance to the Canadian industry.

Pezim companies struck gold at Eskay Creek late in 1988. But the project made the rare leap into the extraordinary in August last year when the explorers drilled one of the most spectacular holes seen in Canada.

News of it ignited the Vancouver Stock Exchange into a frenzy of trading. The Northern Miner newspaper said the hole was "a barnburner by any standard" and an elated Pezim said: "I've never seen a hole like it."

The diamond drillers at Eskay creek pulled out a core containing, in part, 682 feet of material with 0.875 troy ounces of gold and 0.97 ounces of silver per tonne, and a lead and zinc content of 1.12 per cent and 2.26 per cent respectively. In one part of the core, over 200 feet of it, gold averaged 2.877 ounces a tonne, silver 0.85 ounces, lead made up 1.86 per cent and zinc 3.44 per cent.

Further drilling established that the Eskay Creek gold is in two mineralised zones. It also became apparent that there was potential for other large, high-grade, bulk tonnage-type gold deposits in the area.

This sparked off the biggest gold rush British Columbia has seen for decades as other companies scurried off to the region around Eskay Creek, known as the Iskut-Sulphurets area and covering 3,000 square miles, much of it accessible only by helicopter.

Two recent geological reserve estimates, using different criteria, concluded that at the end of last year the Eskay Creek deposit contained at least 2.6m ounces of gold and possibly 5.4m ounces.

That is a far cry from the 10m ounces of reserves some analysts were estimating after last August's "barnburning" hole. But many agree with Ian Wright, analyst with the Laing & Cruickshank financial services group in London, who says: "We believe that the potential of the Eskay Creek discovery is significantly under-stated in both (reserve) calculations as they do not take into account the valuable zinc and lead components... According to our estimates this project already contains well in excess of 6m ounces of gold and gold equivalent."

Placer Dome, second-largest of the North American gold producers, recently decided to get into the action. It bid C$230m (£111m) for Stikine Resources, a Pezim-connected company which owns half of Eskay Creek.

Stikine was already the subject of a complex bid by Pezim's company Prime Resources, which owns the other 50 per cent of Eskay Creek and manages the property, and Corona Corporation, sixth-largest North American gold producer.

Whatever the outcome, the bid battle has confirmed Eskay Creek is a hot property and the industry believes it is already worth at least C$500m.

Analysts suggest the Iskut-Sulphurets area, which now has the attention of most of Canada's big gold players (including the American Barrick, Noranda and the Teck Corporation, as well as Corona and Placer Dome), may eventually host four or five large gold mines.

In normal circumstances Pezim would have relished the activity. However, his Eskay Creek triumph is overshadowed by charges alleging insider trading brought against him and some associates by the British Columbia securities regulators. These are due to be heard in the autumn.

The allegations are holding up about C$15m of financings for various Pezim companies, most of which are active in the Iskut-Sulphurets area. Meanwhile, a typically defiant Pezim says: "There is absolutely no foundation to these charges and we are getting ready for the greatest fight ever."

*Pezim: Tales of a Promoter, Keane Productions, 13812 – 32nd Avenue, Surrey, BC, Canada.

Budget cuts could hit development in 40 countries

Geoff Tansey looks in detail at a daunting mandate for agricultural efficiency

THE MAIN agency helping developing countries to manage their agricultural research better is facing budget cuts. The International Service for National Agricultural Research has just celebrated its 10th anniversary, but this threat is pre-occupying Dr Christian Bonte-Friedheim, its new Director General.

Isnar has worked with about 40 countries. The biggest needs are in sub-Saharan Africa, with just 13 agricultural researchers for every million people, compared with an average of 20 for the developing world and 73 for the industrialised countries. Despite growth in the number of researchers between 1960 and 1964 and 1980 and 1985, funds to support them fell in sub-Saharan Africa and West Asia.

The service, basically a demand-driven management consultancy, has a budget of about $7m (£4.16m) for 1990.

Its 70 staff have a daunting mandate, says Howard Elliott, the deputy director. "Most economic models don't include management as a factor," he says. "But if you can double the efficiency of a national agricultural research system by focusing it better, working on a smaller number of tasks, allocating resources more efficiently to targets and regions, then management is an important factor and pays for itself."

The donors who support Isnar want to know how much impact it is having on farmers in beneficiary countries, but this is hard to assess.

In Costa Rica, Isnar's diagnosis led to a priority-setting research council being established and staffed, resulting in improved services to farmers. In 1986, more than 100 researchers worked on 88 commodities to little effect, says Hunt Hobbs, the service's senior research officer, but that fell to 21 in 1989 and will decline further to 10 or 12.

Dr Bonte-Friedheim wants to respond to any request for diagnosis of a country's problems – at the policy, system or even station level. For this he is seeking donor support for contingency financing – diagnosis missions cost between $20,000 and $60,000.

Whether Isnar goes on to help plan, and possibly implement, the measures needed depends upon the service's priorities and resources – it devotes 50 per cent of its resources to Africa, 20 per cent each to Latin America and Asia, and 10 per cent to West Asia and North Africa.

Now interest in aid to eastern Europe is growing and some donors are rethinking their aid to developing countries. He already has one request from eastern Europe.

Isnar is the newest of the 13 international agricultural research centres supported by the Consultative Group for International Agricultural Research (CGIAR) and is waiting for the group's decision about working in eastern Europe. Dr Bonte-Friedheim would go east provided the money came from additional funding.

Isnar is perhaps the least known of the 13 Centres. CIMMYT in Mexico and IRRI in the Philippines are best known for their work in promoting the green revolution with new varieties of wheat, maize and rice. Other centres work on tropical agriculture, livestock in Africa, dry lands, and preserving genetic resources.

The independently-run centres have annual budgets of between $7m and $30m and are overseen by boards of trustees. Since it began in 1971, the CGIAR has put more than $2bn into international agricultural research.

The CGIAR's budget is about $240m in 1990 – up 6 per cent from 1989, or 1 to 2 per cent in real terms. But this is $35m less than the centre requested and most budgets have been frozen. Not all donors have pledged yet, says Dr Bonte-Friedheim, who doubts that overall growth will be achieved and faces a 5 per cent cut at Isnar.

The group is an ad hoc set of aid donors, drawn from the OECD countries, regional development banks, the UN Development Programme, the World Bank and the two foundations that started it – Ford and Rockefeller. It has nearly 50 members, 36 of which contribute about 1 per cent of the total.

Once a centre's programmes and budget are accepted by the CGIAR, individual donor members decide if, and how much, they want to contribute to that centre's activity. Any shortfall is made up by the World Bank, the donor of last resort. Most recently it put in $34m behind the US's $42m and ahead of Japan's $19m. It is a system the donors think has worked well.

But after 20 years, in which new centres have grown up outside the CGIAR system, the donors want it restructured. In 1988, they asked the technical advisory committee to see about taking in 10 of these new centres. They also decided to broaden its scope from food crops to include agro-forestry and forestry and as well as soil and water management, to take account of sustainability and environmental factors.

But the donors do not want to put more money in. That means existing centres may be faced with cuts.

The debate centres on what kind of research the centres should do and how much of the breeding and other work could be passed on to national agricultural research programmes developed since the 1970s.

Developing country beneficiaries hope this is not an excuse to cut international agricultural research, but a review of priorities which will produce greater efficiency.

Food safety is research priority

By Bridget Bloom, Agriculture Correspondent

A MARKED shift is expected in the priorities for Britain's government-funded agricultural research over the next few years, with more being spent on food safety, animal welfare and the environment and less on promoting production or on research that is deemed to be "near-market."

Figures published yesterday by the newly constituted Priorities Board for Agricultural Research show a total budget of £213.9m for agricultural research in 1989-90. Of this, 15 per cent will go on food and nearly 40 per cent on animal research of various kinds. Environmental research and plant research, including pesticides, will together take over 45 per cent.

According to the Board, by 1991-2 all public funding of near-market R & D will have ceased. Total government expenditure will then be £218.2m. However, this rise is in cash terms only; in real terms the sum spent on government research will have fallen.

Mr John Gummer, the Minister of Agriculture, launched a special conference on research and development in London yesterday by claiming that the changes in research priorities would provide both the taxpayer and industry with better value for money and better research.

The conference, sponsored by the Ministry of Agriculture, was clearly designed to restore morale both among the Government's research scientists and within the agriculture industry as a whole. It follows two years of often bruising confrontation as the Government has sought, as part of an economy-wide drive, to pare the costs of agricultural research.

Yesterday, Mr Gummer claimed, without revealing figures, that industry had taken up most of the near-market research funding abandoned by the Government, although not always in the same sectors.

He was satisfied that the programme of government funding, priorities for which were being decided on scientific grounds, would be adequate to cover all sectors, including stepped-up research into bovine spongiform encephalopathy, or the so-called mad cow disease.

Priorities Board for R & D in Agriculture and Food. Third Report. May 1990. Ministry of Agriculture, Whitehall Place, London. £4.95.

WORLD COMMODITIES PRICES

MARKET REPORT

THE GOLD price continued to retreat in thin trading on the London Bullion Market yesterday, but the collapse some pundits had predicted should the $360-a-troy ounce level be breached did not materialise. The price ended $6.25 down at $356.25 an ounce. "Everybody is nervous," said one trader. "As we're moving down the shorts are buying back. By the same token any upside rallies will be sold into." At the London Metal Exchange copper prices rallied strongly following last week's decline with the cash position closing £45 up on the day at £1,604 a tonne. The rise appeared mainly to reflect concern about nearby supplies as traders spoke of a possible further decline in LME warehouse stocks being announced today. Cocoa's price slide kept up its momentum with a £28 fall to £868 a tonne in the September position. The apparent easing of tensions in the Ivory Coast, the main producer, continued to encourage sellers but fresh fuel was provided by talk that the Soviet Union might be forced to defer purchases and resell cocoa because of its foreign credit problems. Traders also noted a further deterioration in chart patterns.

Compiled from Reuters

London Markets

SPOT MARKETS

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Jul	840	854	860 838
Sep	[illegible]	[illegible]	[illegible]
Dec	880	912	903 [illegible]
Mar	905	928	920 900

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jul	17.37	17.50	17.75	17.28
Aug	17.93	18.10	18.26	17.89
Sep	18.40	18.66	18.74	18.40
Oct	18.86	19.19	19.21	18.89

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

New York

LONDON METAL EXCHANGE · LONDON BULLION MARKET · SUGAR – London FOX · GAS OIL – IPE · COPPER – London FOX · POTATOES – BFE · SOYABEAN MEAL – BFE · FREIGHT FUTURES – BFE · GRAINS – BFE · PIGS – BFE · TEA · TRADED OPTIONS · HEATING OIL · COCOA · COFFEE "C" · SUGAR WORLD "11" · COTTON · ORANGE JUICE · GOLD · PLATINUM · SILVER · HIGH GRADE COPPER · INDICES · SOYABEAN OIL · SOYABEAN MEAL · MAIZE · WHEAT · LIVE CATTLE · LIVE HOGS · PORK BELLIES

LONDON STOCK EXCHANGE

Little genuine investment support

THE UK stock market appeared only too willing yesterday to extend last week's substantial advance, but early gains were trimmed towards the close as Wall Street made a shaky start to the new session. Earlier, London had responded confidently to the new peak reached in New York ahead of the weekend but, with most European markets closed, found itself short of genuine investment support.

An advance of more than 16 FT-SE points in the early part of the session was more than erased by the close of business. The final reading saw the FT-SE Index at 2,379.0, a net gain on the day of 7.6 points.

Account Dealing Dates			
*First Dealings:	May 29	Jun 11	Jun 25
Option Declarations:	Jun 7	Jun 21	Jul 5
Last Dealings:	Jun 8	Jun 22	Jul 6
Account Day:	Jun 18	Jul 2	Jul 16

*New-time dealings may take place from 8.30 am two business days earlier.

Equity enthusiasm was checked by a weaker trend in sterling and by a less exciting performance from Gilts.

The day's Seaq volume held up well, at 430m shares against 499.3m on Friday. But intermarketmaker business played a significant role yesterday. However, statistics from the International Stock Exchange show that daily customer business in the UK equity market was restored to the £1bn mark over the past fortnight.

Traders described trading yesterday as unexciting. Although there were plenty of speculative tales to keep the market on edge, there were few specific corporate developments to enliven share prices. But plans for a £1bn merger of Willis Faber, Britain's second largest insurance broker, with Corroon & Black of the US, surprised the London market, although Faber shares gave ground in the face of the new stock to be issued for the deal.

Food retailing shares turned down against the trend of the market, on reports that a major German retailer with interests in the UK was calling for a monopolies enquiry into competitive aspects of the industry.

But across the broad range of the market it was the lack of business that was the chief complaint of market traders. Marketmakers would have been happy to see prices give ground yesterday after the sharp rises of the last fortnight, but it was clear that fund managers were still unwilling to part with stock.

Reviews of the equity market by brokerage analysts remain relatively favourable. At Hoare Govett, Mr Richard Jeffrey said that overseas fund managers are taking a more sanguine view of the outlook for the UK economy, and that full participation in the Exchange Rate Mechanism of the EMS "would allow Continental institutions to buy into an internationally undervalued market" without too high a currency risk.

Mr Chris Dillow of Nomura Research Institute commented that impending data on UK manufacturers' investment intentions may show that corporate spending, like consumer spending, has remained resilient in the face of the monetary squeeze.

Food retailers lower

...led the food retailers sharply lower in the afternoon in the wake of a trade magazine report that Aldi, the West German supermarket chain, which recently set up its first stores in the UK, had asked the Office of Fair Trading to investigate possible anti-competitive activities among sector leaders. Volume swelled to 10m shares and Tesco fell 12 at one point as analysts tried to confirm the story. Mr Bill Myers, of Henderson Crosthwaite, said that there had been informal contacts between Aldi and the OFT but that it was "very early days and the price reaction is overdone." Tesco eventually recovered half its loss to close a net 6 off at 223p.

Other food retailers were caught in the decline. Sainsbury fell 4 to 290p after ... and Argyll closed at 234p, off 6, after 238p. They turned over 2.4m and a busy 8.8m respectively.

Willis Faber down

Insurance broker Willis Faber fell quickly on news of its merger with Corroon and Black, its US counterpart. Analysts said the company would suffer some short-term dilution of about 10 per cent. of earnings. They said that the likely ending of Willis' relationship with another US broker, Johnson & Higgins, might reduce its level of US business faster than it gained ground through Corroon. Thirdly, Corroon shareholders who received Willis paper might not want to keep it. Willis recovered from a low of 263½p to close at 265p, down a net 26.

Other insurance brokers had a good day on hopes that any US business lost by Willis might come their way. Sedgwick added 5 at 266 and C.E. Heath jumped 17 to 552p.

An intensification of the price war between plasterboard makers lay behind BPB's fall of 10 to 234p. BPB, which is competing for market share against Redland and the West German company Knauf, has followed up a 10 per cent price cut in December with the offer of a 12 per cent discount on standard products.

As a result, UBS Phillips & Drew has downgraded its pretax profit forecast for BPB from £130m to £125m in the current year. This compared with an expected £135m for the year to March, for which figures are due later this month.

Howard Seymour, an analyst with UBS, said BPB was beginning to lose market share to its two rivals and was cutting prices to try to claw it back.

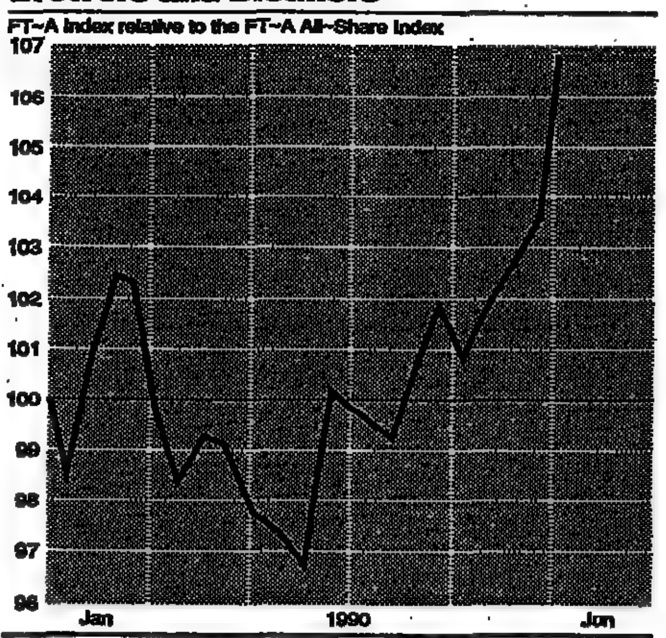
The action comes against a background of slackening demand from commercial builders, particularly in the City of London. Up to half of UK plasterboard went into the commercial market and "real pain" was expected in 1991, he said.

Strong suggestions that a line of 4.1m Hazlewood Foods shares was on offer at 145p from an agency broker left the price 7 lower at 152p.

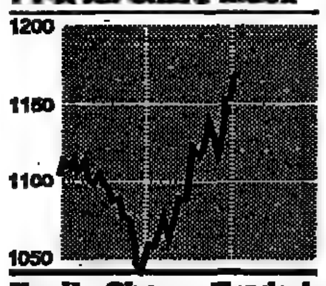
Boots and WH Smith, both rose firmly as they continued negotiations over a merger of their out-of-town do-it-yourself chains. Boots rose 13 to 310p and Smith by 5 to 352p. The former was additionally helped by a weekend press story reviving hopes for Manoplax, the company's heart drug, currently under research.

Brewers and Distillers

FT–A Index relative to the FT–A All–Share Index

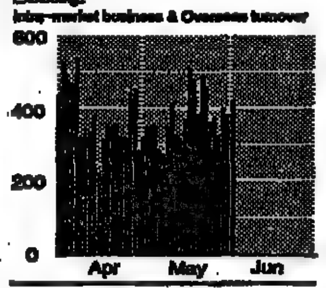


FT–A All–Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: intra-market business & Overseas turnover



Light early buying uncovered a stock shortage in Pearson, and the shares rose 24 to 769p, but 4 below the day's peak.

The possibility that Rank Organisation's bid for Mecca Leisure might be referred to the Monopolies and Mergers Commission helped the former recover 28 to 851p while the latter lost 2 to 86½p.

Enterprise Oil gave up some of last week's gains achieved on bid talk. The shares shed 17 to 648p, but trading volume was sharply lower. Continued weakness in the crude oil price hit second line exploration stocks. Cairn Energy eased 3 to 307p, Goal Petroleum lost 4 to 91p, Premier Consolidated retreated 2 to 99p. Some leaders also felt the pinch, with Shell 3 off at 467p and Burmah 3 cheaper at 639p.

Weekend press comment that BAA, formerly British Airports Authority, was a low-risk company with stake-building potential helped it to one of the best rises of the day among FT-SE stocks. The shares rose 10 to 428p.

Brewers continued last week's sustained rise with an early speculative flurry in Scottish & Newcastle. Weekend press reports that a brewing industry executive was preparing a bid initially pushed the price to 360p, but analysts poured cold water on the notion. "The chances of this bid going ahead are very slim," said Mr Mike McCarthy of Smith New Court. The shares slid back to close at the day's low of 334p, a net decline of 6.

British Aerospace shed 4 to close at 545p on a collection of niggling worries, including the outcome of the European Commission's deliberations on the financial sweeteners the company received when taking on board Rover Group.

The shares were also affected by a bearish newspaper report about the cost of the Airbus consortium and by a lack of short-term enthusiasm for its purchase of a majority stake in Satellite Management International, a satellite television company.

Interest in Rolls-Royce was stimulated by its "Japanese roadshows," following similar presentations in the US. The shares gained 5¼ to 229¼p on good volume.

Financial stocks remained firm in a market still devoid of sellers. Although Friday's takeover stories had died away, there was still support for Lloyds, several pence higher at 309p, and Barclays (410p) also found buyers. Despite suggestions that further profits downgradings by London brokerage houses are in the pipelines, Midland gained 5 to 300p. Persistent suggestions that TSB may be a break-up candidate did the shares no harm at 142p.

More gloom about pollution, the odd jitter over political instability and a slightly cooler view of some prospective figures sent several water stocks lower. The worst affected were Anglian, South West and Yorkshire each shedding 3 to 162p, 166p and 164p respectively.

■ Other Market statistics, including the FT-Actuaries share index, Page 30

FINANCIAL TIMES STOCK INDICES

	June 4	June 1	May 31	May 30	May 29	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	79.18	78.87	78.31	78.58	78.16	84.43	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	87.68	87.45	87.28	87.27	87.24	96.25	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1893.4	1882.4	1855.0	1857.4	1823.3	1737.0	1966.3 (3/1)	1653.6 (30/4)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	202.4	212.2	213.3	216.2	215.7	175.5	378.5 (6/2)	202.4 (4/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2379.0	2371.4	2345.1	2348.2	2295.8	2088.5	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)

	June 4	June 1	May 31	May 30	May 29	Year Ago
Ord. Div. Yield	4.89	4.92	4.99	4.96	5.06	4.58
Earning Yld %(full)	10.98	11.05	11.21	11.22	11.43	11.10
P/E Ratio(Net)(☆)	11.00	10.94	10.78	10.78	10.58	10.91
SEAQ Bargns 4.45pm	31,402	31,605	32,914	30,637	21,836	24,555
Equity Turnover(£m)†	-	966.20	1039.50	1079.14	509.09	1210.90
Equity Bargains†	-	33,082	33,493	29,801	22,945	28,511
Shares Traded (ml)†	-	414.1	392.5	408.7	339.5	426.0

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.66

Ordinary Share Index, Hourly changes — Day's High 1900.2 — Day's Low 1890.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1897.2	1893.5	1898.8	1897.0	1895.6	1896.2	1897.4	1896.6	1893.7

FT-SE, Hourly changes — Day's High 2387.8 — Day's Low 2376.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2383.9	2379.4	2386.3	2385.3	2381.7	2382.9	2384.6	2383.2	2380.2

GILT EDGED ACTIVITY

Indices*	June 1	May 31
Gilt Edged Bargains	88.8	80.7
5—Day average	82.2	82.1

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	151	191	+1
ASDA Group	2,500	105	−1
Abbey National	7,600	205	
Allied–Lyons	2,400	504	+9
Courtaulds	377	353	+6
Dalgety	388	346	+4
Dixons	3,800	143	+1
ECC Group	333	392	+4
Enterprise Oil	683	648	−17
FKI	2,800	77	+2
Ferranti	646	39	
Fisons	1,600	377	+2
Gen. Accident	58	1117	+2
General Elect.	2,500	212	+½
MEPC	354	518	+10
Manpower	0	79	+1
Marks & Spencer	2,300	222	−2
Maxwell Comm.	1,500	197½	−1½
Mecca Leisure	7,100	86½	−1
NatWest Bank	1,600	300	+1
Next	2,700	67	
North West Water	155	158	−1½
Northern Foods	877	308	+3
Slough Ests	332	300	+11
Smith (W.H.) A	344	352	+5
Smith & Nephew	1,900	116	
SmKl Beecham	1,400	542	+6
Smiths Inds.	339	296	−1
South West Water	332	166	−3
Southern Water	310	134	−2
Standard Chartd.	87	478	−2
Storehouse	2,700	128	+1
Ultramar	1,200	337	−3
Unigate	40	297	−2
Unilever	374	698	+5
United Biscuits	600	350	+3
Utd. Newspapers	228	345	+6
Water Package Uts.	1	£1535	−10
Wellcome	834	804	−4
Welsh Water	122	169	−1
Wessex Water	374	164	−1
Whitbread 'A'	1,400	497	−2
Williams Hldgs.	459	288	−4
Willis Faber	2,900	265	−26
Wimpey	695	242	+1
Yorkshire Water	288	164	−3

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

NEW HIGHS AND LOWS FOR 1990

APPOINTMENTS

York Trailer chairman

Dr John A. Roberts *(pictured)* has been appointed chairman of YORK TRAILER HOLDINGS, following the retirement of Mr Peter Tahany. Dr Roberts was chief executive of Ruberoid, and is on several other boards.

■ OUR PRICE has made the following board appointments: Mr Jeremy Collingwood becomes operations director; Mr Philip Downer has been made staff and training director and Mr Pete Kerr has been appointed development director.

■ IVECO FORD TRUCK, the UK commercial vehicle manufacturer, has formed a new operation, Aftersales, to combine the parts operations and service activities within the company's commercial operations function. Overall responsibility for the operation will be assumed by Mr Gerry Brown, who has returned to the UK following an assignment as managing director of Iveco Sweden.

■ METCOM, the Mechanical and Metal Trades Confederation, has appointed Mr Mark Symons as deputy director of its London region. He was general secretary of the Federation of Fresh Meat Wholesalers.

■ CHAUCER ESTATES has appointed Mr Tony Vice as a non-executive director. He is a director of N.M. Rothschild & Sons, and other companies.

■ BROWN, SHIPLEY & CO has appointed Mr Peter Shand as director of information technology. He has been responsible for the computer systems since 1971.

■ At NISSAN MOTOR MANUFACTURING (UK) Mr Keith Jones has been promoted from general manager - quality assurance to quality director; and Mr Les Nicholls from deputy to engineering director. Mr Bob Hampson becomes general manager - purchasing. He was purchasing manager.

■ GERRARD VIVIAN GRAY, stockbroking subsidiary of Gerrard & National, has appointed as associate directors Mr Nigel Sidebottom, Mr Robin Bonham-Carter, Ms Jenny Hume (also appointed finance director of Venturi Investment Management), and Mr Julian Stanford.

■ Mr David Mattin has joined SEVERN TRENT as company secretary. He was group secretary of Foseco.

■ Mr Alan Hindley has been appointed general manager of CABLE TELECOM, part of Windsor Cable. He was marketing director of Tektronix UK.

■ Mr Martin Weir has been appointed to the new post of deputy general manager of the SCOTTISH CO-OP, retail arm of the CWS north of the border. He was the society's national food manager.

■ MOTHERWELL BRIDGE HOLDINGS has appointed as a non-executive director Mr Duncan J. MacLeod, who was managing partner with Ernst & Whinney, Glasgow, is chairman of the Scottish Industrial Development Advisory Board, and is a director of Bank of Scotland, Scottish Provident Institution, The Weir Group and other companies. Sir Gordon Manzie, who recently retired as chief executive of the Property Services Agency, becomes a non-executive director of Motherwell later this year.

Mr David Livermore *(pictured)* has been appointed a non-executive director of TRIPLEX LLOYD. He is director of corporate services at IBM United Kingdom Holdings.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
Chase Manhattan $12½	15½		$2.36	–	9.0
Chem. Banking Corpn.	15¾	+⅛	$2.72	–	9.8

CANADIANS

Continued on next page

LONDON SHARE SERVICE

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
303	209	ANZ SA1	228	+1	44c	1.4	9.0	7.9
206	172	Abbey National 10p	205	.....	5.7	4.3	3.7	8.3
*274	210	Allied Irish Ord	234xd	+1	Q40%	♦	4.0	♦
£13¼	£11	Algemene Fl 10	£11½	....	Q28%	2.1	7.8	6.0
85	73	Anglo Irish	75	.....	Q18.7%	2.7	5.9	10.2
81	68	Arbuthnot (H.) 1p	75	.....	2.5	1.3	4.4	21.6
£71¼	£54¼	Bancaire Cie Fr100	£65	.....	Q12½%	–	2.1	–
£22½	£16¾	Banco Bilbao Viz	£19	....	Q49.1%	2.7	4.4	12.3
£31	£24¼	Banco de Santander	£27¼	....	Q25%	2.4	4.1	10.1
286	224	Bank Ireland IrL1	254xd	....	Q14.3%	♦	5.3	♦
£19½	£18	Bank Leumi	£19½	....	–	–	–	–
350	320	Bank Leumi (U.K.)	345	....	†13.5	–	5.2	–
125	104	Bank Scotland	121	+1	4.55	3.3	5.0	8.0
100½	83½	Do. 9¼pc Irrd Pf	93½	+½	9¼%	–	13.2	–
54	39	Bank of Wales	42	.....	2.6	0.8	8.9	(20.3)
428	352	Barclays £1	410xd	+5	n19.57	3.5	6.4	5.7
22	12	Benchmark 20p	13	+1	1.63	1.0	16.7	7.5
335	310	Brown Shipley £1	320	....	12.0	♦	5.1	♦
455	361	Cater Allen £1	405	....	23.5	–	7.7	–
179	132	Chancery	134	+2	†8.0	2.6	8.0	5.9
£23¼	£19½	Commerzbk DM10	£20¼	+¼	Q18%	–	3.3	–
£13¼	842	Dai Ichi KBk Y50	914	–23	Q17%	♦	0.4	♦
£310	£252¼	Deutsche Bk DM50	£279¼	+1½	Q28%	–	1.8	–
£20½	£19	Espirito Santo	£19½	.	075c	♦	2.3	♦
253	193	First Nat. Fin. 10p	221	....	13.0	2.4	7.8	6.8
121	96	FNFC 6.3pc Cv. Pf	111	....	6.3%	–	7.6	–
262	109	Fuji Bank Y50	110	+1	Q17%	♦	3.1	♦
325	262	Gerrard & National	281xd	+1	19.0	♦	9.0	♦
154	132	Guinness Mahon 10p	132	–2	2.1	–	2.1	–
339	223	Hambros 20p	267	+3	†10.0	–	5.0	–
128	93	Do. 7.5pc Cv. Pf	108	+1	7½%	–	9.3	–

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

LONDON SHARE SERVICE

MOTORS, AIRCRAFT TRADES — Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY — Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES — Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

Craig & Rose £1.. ♥	830	....
Finlay Pkg. 5p.... ♥	53	....
Holt (Jos) 25p..... ♥	1300	+10

IRISH

Cap. 8½% Ln. 1991	£98¼	....
9pc Cap Ln. 1996..	£94¾	....
Fin. 13% 97/02...	£112¼	....
Arnotts..............	415	....
Carrol (P.J.)....... ♥	145	....
Hall (R. & H.).......	175	....
Helton Hldgs....... ♥	74	....
IRG	202	....
United Drug........	160	....

TRADITIONAL OPTIONS
3-month call rates

Industrials

	p
Allied-Lyons	39
Amstrad	5½
Asdec (BSR)	5¼
BAT	83
BOC Grp	45
BTR	36
Barclays	49
Blue Circle	19
Boots	23
Bowaters	38
Brit Aerospace	42
British Steel	9
Brit. Telecom	25
Cadburys	27
Charter Cons	40
Comm Union	40
Courtaulds	24
Eurotunnel	60
FKI	7
FNFC	21
Gen Accident	90
GEC	18
Glaxo	56
Grand Met	45
Guardian	19
GKN	39
Hanson	18
Hawker Sidd	55
ICI	85
Ladbroke	25
Legal & Gen	34
Lex Service	26
Lloyds Bank	22
Lucas Inds	52
Marks & Spencer	17
Midland Bk	27
Nat West Bk	29
P & O Dfd	58
Polly Peck	37
Racal Elect	19
RHM	35
Rank Org Ord	68
Reed Intnl	33
STC	20
Sears	9½
SmKl. Beecham A	46
TI	38
TSB	12
Tesco	17
Thorn EMI	61
Trust Houses	22
T&N	37
Unilever	56
Vickers	18
Wellcome	60

Property

Brit Land	32
Control Secs	5
Land Securities	44
MEPC	44
Mountleigh	14

Oils

Aviva Petlm	5½
Brit Petroleum	28
Burmah Oil	52
Conroy Petlm	12
Gaelic Res	4½
Premier	10
Shell	37
Tuskar Res	10
Ultramar	31

Mines

Lonrho	20
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Abbey Unit Tst Mngrs (1000)H

Brown Shipley & Co Ltd – Contd.

EFM Unit Tst Mngrs Ltd (1400)H

Glenfriars Unit Tst Mngrs Ltd (0900)F

Global Asset Management (1200)F

Lloyds Bk Unit Tst Mgrs Ltd (1000)F

Midland Unit Trusts Ltd – Contd.

Prolific Unit Tst Mngrs Ltd – Contd.

Providence Capital Fd Mngrs Ltd (1000)H

Scimitar Unit Tst Mngrs Ltd (1200)F

Scottish Amicable Ut Tst Mngrs Ltd (1200)H

Metropolitan Unit Trust Mngrs Ltd (1600)F

Midland Unit Trusts Ltd (1200)F

Perpetual Unit Tst Mngmt (1600)F

Phillips & Drew Unit Managers Ltd (1400)F

Principal Unit Trust Mngmt Ltd (1600)F

Prolific Unit Tst Mngrs Ltd (1600)F

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
[illegible]

OFFER PRICE
[illegible]

BID PRICE
[illegible]

CANCELLATION PRICE
[illegible]

TIME
[illegible]

HISTORIC PRICING
[illegible]

FORWARD PRICING
[illegible]

SCHEME PARTICULARS AND REPORTS
[illegible]

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London Life
100 Temple St, Bristol BS1 6EA 0272-279179

	Bid Price	Offer Price	+ or -	Yield Gross
Assurances				
Equity	640.9		----	-
Fixed Int.	243.2		----	-
Property	372.4		----	-
Deposit	220.2		----	-
Mixed	424.2		----	-
Index Stock	148.5		----	-
International	209.0		----	-
Assurances-Series A				
Equity (A)	149.8		----	-
Fixed Interest (A)	108.6		----	-
Property (A)	164.8		----	-
Deposit (A)	130.3		----	-
Mixed (A)	140.4		----	-
Index Stock (A)	117.1		----	-
International (A)	131.5		----	-
Pensions				
Equity (P)	497.9		----	-
Fixed Int. (P)	301.0		----	-
Property (P)	288.4		----	-
Deposits (P)	257.7		----	-
Mixed (P)	367.7		----	-
Index Stock (P)	168.9		----	-
International (P)	234.2		----	-
Equity (s)	109.7	115.6	----	-
Fixed Interest (s)	98.8	104.1	----	-
Property (s)	124.0	130.7	----	-
Deposit (s)	119.3	125.7	----	-
Mixed (s)	112.3	118.3	----	-
Indexed Stock (s)	112.8	118.9	----	-
International (s)	119.6	126.0	----	-

London & Manchester Group
Winslade Pk, Exeter EX5 1DS 0392 282246

	Cap	Acc		M M/C
Investment Trust Fd (z)	476.1	654.3	+0.3	346.9
Property Fd (z)	190.0	255.5	----	288.1
Fixed Interest Fd (z)	153.6	205.3	+1.5	224.6
Equity Fd (z)	257.5	347.2	+2.2	374.9

Merchant Investors Assurance Co Ltd – Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
MI Hen North America	129.3		-2.0	-
MI Hen Am Smllr Cos	126.2		+0.6	-
MI Hen Am Recovery	131.8		+0.5	-
MI Hen Japan	97.9		-0.3	-
MI Hen Japan Smr Sits	92.4		-0.3	-
MI Hen Hong Kong	128.9		+2.3	-
MI Hen Pacific Smllr Co	137.1		+0.9	-
MI Hen European Tst	150.2		+0.5	-
MI Hen European Smr Co	141.7		+0.2	-
MI Hen European Income	142.4		-0.1	-
MI Hen Australian	111.2			-
MI Hen Best of British	126.4		+0.7	-
MI Hen Spirit of the East	119.8		+0.4	-
MI Henderson Fund	201.3		+6.0	-
MI Hen UK Growth	191.8		+0.7	-
MI Hen UK Income	195.0		+0.5	-
MI Hen American	196.9		+1.0	-
MI Hen Far East	213.4		-2.3	-
MI Hen European	259.1		+0.6	-
MI Hen Prime Res Prop	84.0		----	-
MI Klein Ben Extra Inc	109.3		-0.7	-
MI Klein Ben Gilt Yield	99.5		+1.0	-
MI Klein Ben High Yield	108.9		+0.6	-
MI Klein Ben General	119.2		+0.8	-
MI Klein Ben Smllr Cos	95.9		-0.7	-
MI Klein Ben UK Equity Gth	111.5		+0.4	-
MI Klein Ben European	136.0		+0.3	-
MI Klein Ben Euro Special	140.6		+0.1	-
MI Klein Ben Am Smllr Cos	129.2		+0.6	-
MI Klein Ben Nth American	134.1		+0.1	-
MI Klein Ben Japan	128.8		+0.8	-
MI Klein Ben Japanese Spc	139.0		----	-
MI Klein Ben Pacific	103.1		+0.3	-
MI Klein Ben Global Income	114.8		+0.2	-
MI Klein Ben Inv Tst Fund	113.3		----	-
MI Klein Ben Intl Recovery	111.6		+0.1	-
MI Klein Ben Master Tst	128.3		+0.3	-
MI Klein Ben Small Cos Div	88.8		----	-
MI Mor Gren Tracker	113.9		+1.5	-

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Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Pegasus Assurance Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Providence Capital Life Ass. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group (a)

Save & Prosper Group - Contd.

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Provident Institution

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Skandia Life Assurance Co Ltd - Contd.

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

Albany International Assurance Ltd

CMI Insurance Co Ltd

CMI Insurance Co Ltd - Contd.

Eagle Star Intl Financial Services

Equity & Law Intl Life Assce Co Ltd

Eurolife Assurance Group

Fidelity International Ltd

Hansard International Ltd

Isle of Man Assurance Ltd

Lombard Intl Assurance Ltd

Manulife International Ltd

Premium Life International Ltd

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

MANAGEMENT SERVICES

The Analysis Group PLC

Bryan Wallis & Partners Ltd

James Campbell & Son Financial Services

Close de Vere PLC

Clifton Financial Mgmt Ltd

Desmond Moores Plc

Edinburgh Money Management Ltd

Fairmount Glen Rolls Ltd

Gartmore Fund Managers Ltd

Hambros Bank (Guernsey) Ltd

Investment Portfolio Services Ltd

I.P.S. Lamont plc

James Fry Financial Services Ltd

Knight Williams & Company Ltd

Macarthy & Davis F.S. Ltd

Marsh Financial Management PLC

Northern Mngs & Partners

O'Hallaron & Co/Comphynde

PSR Fund Management Ltd

Policy & Co Ltd

Rothschild Asset Management

Sarasin Financial Management Ltd

Simpkin (Albert) & Co.

South Yorks Investment Management

Tattersall Investment Mngt. Ltd

Towry Law & Co

J. D. Wood Financial Services Ltd

Wrenham Asset Management Ltd

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

Ivory & Sime Pembroke Inc.

GUERNSEY (SIB RECOGNISED)

BBV-Hambros Asset Mngmt (Guernsey) Ltd

Cigna International Fund Mngrs (CI) Ltd

Gartmore Invest Managers (Guernsey) Ltd

Gamma Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Leopold Joseph Fund Mngmt (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lloyds Intl Money Market Fund Ltd

M & G Island Fund

Prolific International Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Funds

GUERNSEY (REGULATED)

Adams & Neville Fund Mngt (Guernsey) Ltd

Aitken Intl Asset Management (Guernsey) Ltd

Anglo-Swiss Asset Management (Guernsey) Ltd

Barclays Bank Fund Management (Guernsey) Ltd

Baring Intl Fund Managers (Guernsey) Ltd

Bentrend Management (Guernsey) Ltd

Duncan Lawrie Asset Management (Guernsey) Ltd

Fleet-Connell Fund Mngrs (Guernsey) Ltd

Framlington Overseas Fund Mngt Ltd

Genesis Fund Managers Ltd

John Govett Mngmnt International Ltd

Hambros Throgmorton Management Ltd

Henderson Intl Admin. (Guernsey)

Hill Samuel Fd. Mngrs. (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Kleinwort Benson Islamic Fd Mgmt Ltd

Lazard Fund Managers (CI) Ltd

Merrill Lynch Intl Capital Mngt (Guernsey)

NM Financial Mngmt Intl Ltd

FT MANAGED FUNDS SERVICE

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JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

[illegible]

	Bid Price	Offer Price	+ or -	Yield Gross
Union-Investment-Gesellschaft GmbH				
Unifonds	DM37 87	39.80	(z)	-
Unirak	DM77.86	81.56	(z)	-
Unirenta	DM34.99	36.10	(z)	-
Warburg Inv Mngmt (Isle of Man) Ltd				
Mercury 90:10 Trust (Gtd)				
Dollar Fd BOPUPs	$10.22	10.23	----	-
Dollar Fd OPUPs	$11 00	11 07	----	-
Sterling Fd BOPUPs	£10.21	10 22	----	-
Sterling Fd OPUPs	£11 91	11.99	----	-
DM Fd BOPUPs	DM10 01	10 02	----	-
DM Fd OPUPs	DM10.56	10 63	----	-
Yen Fd BOPUPs	$7.70	7 71	----	-
Yen Fd OPUPs	$10.90	10.97	----	-
Wardley Investment Services Ltd				
Wardley S E. Asia Tst	$13.35	14 16	+0.30	0.78
Japanese Warrants	$9 18	9 72	+0.08	-
Asian Warrants	$10.11	10.71	+0.30	-
European Warrants	$10 19	10 79	-0.18	-
Wells Fargo U.S. IT Fund				
NAV May 31		$9 95	----	-
Xiphias International Investment Fd Ltd				
Xiphias Int USD		$1 0031	----	-
Xiphias Int ECU		Ecu1.0087	----	-

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
CAF Money Management Co Ltd				
48 Pembury Road, Tonbridge TN9 2JD			0732 770114	
Calcash Deposit Fd	15.50	-	16 43	3-Mth
The COIF Charities Deposit Account				
2 Fore Street, London EC2Y 5AQ			071-588 1815	
Deposit	14.95	-	15.81	3-Mth
Gartmore Money Management Ltd				
2-3 White Hart Yard, London SE1R 1RX			071-236 1425	
Call Fnd	14.52	11.33	15.53	6-Mth
7-day Fund	14.57	11.37	15.58	6-Mth
Special Fund	14 91	-	16.36	3-Mth
Dollar	6.87	5.36	7.29	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Aitken Hume Bank plc				
30 City Road, EC1Y 2AY			071-638 6070	
Treasury Acc	13.50	10.53	14 60	Qtr
Mth Int Chq £1,000-£4,999	13 50	10.53	14 73	Mth
Mth Int Chq £5,000-£49,999	14 00	10.92	15.31	Mth
Mth Int Chq £50,000+	14.50	11.31	15 88	Mth
Allied Trust Bank Ltd				
97-101 Cannon St, London, EC4N 5AD			071-629 6802	
OMNA (£2,001 +)	14 78	11.53	16 210	Mth
HICA (£2,001 +)	13.90	10.84	15.196	Mth
FROMNA (£250,001+)	14 90	11.62	16.349	-
American Express Bank Ltd				
c/o American Express Financial Services Limited, 49 The Martlets, Burgess Hill, West Sussex, RH15 9NW 0444 870088				
High Performance Cheque Account				

[illegible]

	Gross	Net	Gr Equiv CAR	Int Cr
120 Cheapside, London EC2V 6DS			071-382 6000	
Special Acc	14 5	11 31	15.31	Mth
£10,000 and above	14.75	11.505	15 61	Mth
Western Trust High Interest Cheque Acc				
The Moneycentre, Plymouth PL1 1SE			0752 224141	
£25,000+	14.50	11.31	15.73	Qtr
£5,000-£24,999	14.25	11 12	15.45	Qtr
£1,000-£4,999	14 00	10 92	15.17	Qtr
Wimbledon & South West Finance Co Ltd				
114 Newgate St, London EC1 7AE			071-606 9485	
High Int Cheque Acc	14.50	11.31	15.73	Qtr

NOTES—Gross rate to those exempt from composite rate of tax Net actual rate after deduction of CRT Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate Int Cr frequency interest credited

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. z Previous day's price. §§ Guernsey gross. φ Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase. xd ex dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey: Financial Services Commission; Isle of Man: Financial Supervision Commission; Jersey: Commercial Relations Department; Luxembourg: Institut Monétaire Luxembourgeois.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

D-Mark under a shadow

THE ISSUE of German reunification tended to dominate a quiet day on the foreign exchanges yesterday. Trading was limited by the closure of many European centres for the Whitsun holiday.

US President George Bush and Mr Mikhail Gorbachev, President of the Soviet Union, failed to agree about the future of a united Germany as a member of Nato at their recent summit meeting. This coupled with uncertainty about the inflationary implications of German monetary union, set for the beginning of next month, weighed on the D-Mark, dragging the currency down against the dollar and against members of the European Monetary System.

Dealers said there was no strong economic reason to buy the dollar, but the US currency moved higher as a safe haven at a time of nervousness about political developments in Europe. However, it finished well below the day's highs.

At the close of trading in London the dollar had climbed to DM1.6935 from DM1.6930; to SFr1.4385 from SFr1.4355; and to Y152.60 from Y151.30, but had fallen to FFr5.7025 from FFr5.7150. On Bank of England figures the dollar's index rose to 67.9 from 67.5.

A rise of £65m in UK official reserves last month had no impact on sterling. The increase was lower than most City forecasts, ranging from £70m to £300m, but the pound's decline appeared to be largely technical, reflecting fading hopes of an early British move to enter the European Monetary System Exchange Rate Mechanism.

The pound had fallen 90 points to $1.6755 by the close of trading in London. It also declined to DM2.8375 from DM2.8525; to FFr9.5550 from FFr9.6275; to SFr2.4100 from SFr2.4175, but advanced to Y255.75 from Y254.75. According to the Bank of England sterling's index fell 0.2 to 88.9.

Within the EMS the Italian lira remained firm. Milan was one of the few financial centres opened in western Europe, and at the fixing there the lira hit its maximum level against the weakest placed French franc. The Bank of Italy bought FFr282m as the franc was fixed at its floor of L218.13, but at the finish of trading in London the French currency had improved to L218.20 from L218.15 on Friday. At the Milan fixing the Italian central bank also bought DM138m to stem the lira's advance.

The D-Mark lost ground to the lira, falling to L734.70 from L736.40, and to the French franc, declining to FFr3.3670 from FFr3.3755 at the London close. On the other hand the West German currency rose to Y90.10 from Y89.35 in terms of the yen.

Average rates against the dollar in May were: sterling $1.6771; D-Mark DM1.6640; Japanese yen Y153.87; Swiss franc SFr1.4197; and French franc FFr5.6016.

Paris markets were closed yesterday and prices quoted in the tables opposite for French financial futures and options (MATIF) are for Friday June 1.

£ IN NEW YORK

June 4	Latest	Previous Close
[illegible]	[illegible]	[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 4	Previous
[illegible]	[illegible]	[illegible]

CURRENCY RATES

June 1	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

June 4	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

June 4	£	$
[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

June 4	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

June 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

June 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 4	% change from central rate	% change adjusted for divergence	Divergence limit %
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

June 4	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr per 100

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS

[illegible]	[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]	[illegible]

LIFFE BUND FUTURES OPTIONS

[illegible]	[illegible]

LIFFE EURODMARK OPTIONS

[illegible]	[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]	[illegible]

LIFFE SHORT STERLING OPTIONS

[illegible]	[illegible]

LONDON (LIFFE)

[illegible]	[illegible]

CHICAGO

[illegible]	[illegible]

CAC-40 FUTURES (MATIF) Stock Index

	Open	Close	Change	High	Low	Open Int.
June	2099.0	2081.0	-38.5	2102.0	2077.0	4,876
July	2090.0	2083.0	-36.5	2099.0	2083.0	350
August	2090.0	2090.0	-	2090.0	2090.0	-
September	-	-	-	-	-	10

Estimated volume 3,570 Total Open Interest 5,436

FT-SE 100 INDEX

[illegible]	[illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6755	1.6663	1.6478	1.6227	1.5822

IMM-STERLING $ per £

	Latest	High	Low	Prev.
Jun	1.6642	1.6684	1.6630	1.6762
Sep	1.6366	1.6416	1.6366	1.6490
Dec	1.6124	1.6124	1.6124	1.6240

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	NatWestminster	15
Adam & Company	15	Cyprus Popular Bk	15	Northern Bank Ltd	15
Allied Trust Bank	15	Dunbar Bank PLC	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Duncan Lawrie	15	Provincial Bank PLC	16
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe G'rantee	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc.	16½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15½
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
Clydesdale Bank	15	Midland Bank	15		
Comm.Bk.N.East	15	Mount Banking	15		
Co-operative Bank	*16	Nat Bk. of Kuwait	15		

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MONEY MARKETS

London rates ease

A slightly softer tone to London interest rates was evident again yesterday, but trading was quiet with dealers not expecting any change in bank base rates for the foreseeable future. Three-month sterling interbank eased to 15⅛-15⅛ per cent from 15¼-15⅛ and 12-month money declined to 15-14⅞ per cent from 15⅛-14⅞. There was no reaction to a fall of £200m in new consumer credit lending in April or to a small rise in UK official reserves.

UK clearing bank base lending rate 15 per cent from October 5

Short sterling futures also traded quietly on Liffe. September delivery opened lower at 85.37, and drifted down to close at 85.34, compared with 85.39 on Friday.

There was another large shortage of day-to-day credit on the money market. The Bank of England initially forecast a shortage of £1,400m, but revised this to £1,350m in the afternoon. Total assistance of £1,204m was provided.

An early round of help was offered, and at that time the authorities bought £511m bills outright, including £13m bank bills in band 2 at 14⅞ per cent. Another £568m bills were purchased for resale to the market in equal amounts on June 11 and 12 at a rate of 14⅞ per cent.

Before lunch a further £240m bills were bought outright, by way of £14m bank bills in band 1 at 14⅞ per cent, and £226m bank bills in band 2 at 14⅞ per cent. In the afternoon the Bank of England purchased £68m bills, via £4m Treasury bills in band 1 at 14⅞ per cent; £37m bank bills in band 1 at 14⅞ per cent; and £27m bank bills in band 2 at 14⅞ per cent. Late assistance of around £285m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,658m, with the unwinding of repurchase agreements on bills absorbing £668m. These outweighed Exchequer transactions adding £310m to liquidity, a fall in the note circulation of £580m, and bank balances above target of £30m.

In New York the Federal Reserve added temporary liquidity to the banking system, via three-day system repurchase agreements, when Federal funds were trading at the assumed target level of 8¼ per cent. The Fed was expected to provide funds, although dealers thought this would be done through the less aggressive method of customer repurchase agreements, but it was not regarded as a change in monetary policy.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 4) 3 months US dollars		6 months US Dollars	
bid 8⅛	offer 8¼	bid 8¼	offer 8⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

		Treasury Bills and Bonds			
Prime rate	10	One month	7.29	Three year	8.35
Broker loan rate	9¾	Two month	7.35	Four year	8.42
Fed funds	8¼	Three month	7.95	Five year	8.38
Fed funds at intervention	-	Six month	8.02	Seven year	8.48
		One year	8.06	10-year	8.45
		Two year	8.31	30-year	8.43

June 4	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	-	-	-	-	-	8.00
Paris	-	-	-	-	-	9.50
Zurich	-	-	-	-	-	-
Amsterdam	-	-	-	-	-	-
Tokyo	7⅛-7⅛	7¼-7⅛	-	7¼-7⅛	-	-
Milan	-	-	-	-	-	-
Brussels	-	-	-	-	-	-
Dublin	-	-	-	-	-	-

LONDON MONEY RATES

Jun 4	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15¼	15¼	15¼	15¼	15⅛	15⅛
Interbank Bid	15	14⅞	15	15⅛	15⅛	14⅞
Sterling CDs	-	-	15	15⅛	15⅛	14⅞
Local Authority Deps	14⅞	15	15	15⅛	15⅛	14⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	15¼	14⅞	14⅞	14⅞	-	-
Company Deposits	-	-	15⅛	15¼	15⅛	15
Finance House Deposits	-	-	15	15⅛	15⅛	14⅞
Treasury Bills (Buy)	-	-	14⅞	14⅞	-	-
Bank Bills (Buy)	-	-	14⅞	14⅞	14⅞	-
Fine Trade Bills (Buy)	-	-	15⅛	15⅛	14⅞	-
Dollar CDs	-	-	8.20	8.23	8.32	8.45
SDR Linked Dep Offer	-	-	8⅞	9⅛	9⅛	9⅜
SDR Linked Dep. Bid	-	-	8¼	8⅞	9⅛	9¼
ECU Linked Dep Offer	-	-	10⅛	10⅛	10⅛	10⅜
ECU Linked Dep Bid	-	-	9⅞	10⅛	10⅛	10½

Treasury Bills (sell): one-month 14⅞ per cent; three months 14½ per cent. Bank Bills (sell): one-month 14⅞ per cent; three months 14½ per cent; Treasury Bills; Average tender rate of discount 14.4826 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day May 31, 1990. Agreed rates for period June 26 1990 to July 24, 1990. Scheme I: 15.91 p.c.. Schemes II & III: 16.44 p.c. Reference rate for period May 1,1990 to May 31 1990 Scheme IV&V 15.201 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from June 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6). Deposit £100,000 and over held under one month 11½ per cent, one-three months 13 per cent; three-six months 13 per cent, six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9,1989, Deposits withdrawn for cash 5 per cent.

LEGAL NOTICES

ROCKHAVEN BUILDERS LIMITED

(IN LIQUIDATION)

In accordance with rule 4.106 of the Insolvency Rules 1986, notice is hereby given that I was appointed Liquidator of the above company by the creditors on 21 May 1990.

NOTICE IS HEREBY GIVEN that I, RONALD PETER GRANT of LAWRENCE GRANT, 37 Stanmore Hill, Stanmore, Middlesex was appointed Liquidator of the said Company on the 21st May 1990.

Notice is also hereby given that the creditors to the above-named company, are required, on or before 2 July 1990 to send their full Christian and surnames, their addresses and descriptions, and full particulars of their debts or claims to the undersigned, Ronald Peter Grant of Lawrence Grant, 37 Stanmore Hill, Stanmore, Middlesex. HA7 3DS, the Liquidator of the said Comapny, and, if so required in writing from the said Liquidator, are personally, or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

R.P. Grant
Liquidator
Dated 21 May 1990

No. 002362 of 1990

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
MR. JUSTICE VINELOTT

IN THE MATTER OF TENDY INDUSTRIES LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated the 14th day of May 1990 confirming the reduction of the capital of the above named company from £14,905,000 to £8,109,829 was registered by the Registrar of Companies on the 18th day of May 1990.

DATED THIS 5TH DAY OF JUNE 1990

NABARRO NATHANSON
50 Stratton Street
London W1X 5FL

Solicitors for the Company
Ref: GA/ARE/E139:94

COMPANY NOTICES

Quebec Central Railway
Company Capital Stock

In preparation for the payment of the half-yearly dividend due July 15 1990 on the above stock, the transfer books will be closed at 3.30 p.m. on June 22 1990 and will be re-opened on July 2 1990.

D.R. Kaese
Assistant Secretary

62-65 Trafalgar Square,
London WC2N 5DY

May 31. 1990

CROSSWORD

No.7,255 Set by QUARK

ACROSS

1 A work of 24 and 14 (6)
4 The plant's in favour of liquid refreshment (6)
8 Platform in spring unfinished? That's what some believe (7)
9 Two names for a bone (7)
11 Could be tender name (10)
12 Begrudge the ambassador lacking nothing (4)
13, 18 Company for works of 24 and 14 (5,5)
14 See 24
16 Latin for variety could make an impression (4,4)
18 See 13 across
20 Patient action (4)
21 They could cause gritty reaction at the coast (10)
23 Skin public in a remote place (7)
24 and 14 Entertaining collaborators (7 and 8)
25 Rebuilt manor lodge initially perpendicular (6)
26 Decent tea set out (6)

DOWN

1 Keen doctor has run all over the place (5)
2 Minister in American uprising shows dishonesty (7)
3 Leave cut short – system of weights found inside ship (9)
5 Criticise the joint (5)
6 See 17
7 Moderate priest involved in a sorry tale (9)
10 What adds flavour at certain time? Gin cocktail! (9)
13 Pet one is dotty about! (9)
15 Engage the common man: one to deal with security (9)
17 and 6 Subtitle for work of 24 and 14 (3,4 and 3,4)
19 Mob rush all round certain figure (7)
21 There's room to show steam age is not over (5)
22 The inventor's a little bit left out (5)

Solution to Puzzle No.7,254

LOVE IN IDLENESS / PERUSE MARINATE / DECADENT MENTAL / TOTE STRETCH / COLOGNE PAGE / MOROSE DEPONENT / ABATTOIR PRAISE / TASTEFUL PELLET

WORLD STOCK MARKETS

FRANCE (continued)

[illegible]

GERMANY (continued)

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SOUTH AFRICA

[illegible]

ITALY

[illegible]

GERMANY

[illegible]

JAPAN

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

AUSTRALIA

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

CANADA

TORONTO

Closing prices June 4

[illegible]

MONTREAL

Closing prices June 4

[illegible]

Total Sales 5,[illegible],181 shares.

INDICES

NEW YORK

DOW JONES	June 4	June 1	May 31	May 30	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2935.19	2900.97	2876.66	2878.56	2935.19 (4/6)	2543.24 (30/1)	2935.19 (4/6/90)	41.22 (2/7/32)
Home Bonds	90.66	90.61	90.26	90.16	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1207.85	1198.15	1171.55	1163.76	1207.85 (4/6)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	215.42	211.71	211.39	212.15	236.23 (2/1)	203.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

Day's high 2943.69 (2919.90) Low 2883.98 (2868.69)

STANDARD AND POOR'S

	June 4	June 1	May 31	May 30	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	367.40	363.16	361.23	360.86	367.40 (4/6)	322.98 (30/1)	367.40 (4/6/90)	4.40 (1/6/32)
Industrials	428.34	424.65	422.14	421.72	428.34 (4/6)	371.92 (30/1)	428.34 (4/6/90)	3.62 (21/6/32)
Financial	31.15	30.39	29.94	29.82	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	[illegible]	198.05	[illegible]	196.75	200.21 (4/6)	178.43 (30/1)	200.21 (4/6/90)	4.46 (25/4/42)
Amex Mkt. Value	364.40	363.83	363.06	362.91	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	465.61	462.12	458.97	458.77	465.61 (4/6)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	May 25	May 18	May 11	year ago (approx.)
Dow Industrial Div. Yield	4.01	3.99	3.95	3.34

	May 30	May 23	May 16	year ago (approx.)
S & P Industrial div. yield	2.93	2.94	2.98	3.18
S & P Ind. P/E ratio	16.89	16.08	15.49	12.79

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
LA Gear	3,950,900	30½	- ¼
BCE Inc.	2,447,600	34¾	+ ⅛
Philip Morris	2,085,200	44¾	+ 1⅛
Am. Express	2,077,900	31⅝	+ 1⅞
Wal-Mart	2,008,400	60⅝	+ 2¾
Fst. Interstate	1,938,200	44⅞	+ 6¼
Fannie Mae	1,882,700	43⅝	+ 2
Morgan (J.P.)	1,705,000	39⅜	+ ⅜
Upjohn	1,646,700	40⅝	+ ⅝
Gen. Motors	1,614,900	50⅛	+ ⅞

TRADING ACTIVITY

† Volume Millions	June 4	June 1	May 31
New York	175.920	187.860	165.690
Amex	11.755	13.732	14.787
NASDAQ	(u)	168.058	157.258
Issues Traded	2,018	2,020	2,005
Rises	1,101	978	783
Falls	463	573	675
Unchanged	446	469	547
New Highs	83	72	66
New Lows	27	17	21

CANADA

TORONTO	June 4	June 1	May 31	May 30	1990 HIGH	1990 LOW
Metals & Minerals	3258.40	3239.10	3217.20	3192.00	3453.05 (4/1)	2850.80 (23/4)
Composite	3601.50	3595.00	3581.99	3565.60	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1868.57	1859.94	1852.69	1844.24	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	June 4	June 1	May 31	May 30	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1524.9	1513.8	1512.0	1499.5	1713.7 (12/1)	1434.5 (30/4)
All Mining (1/1/80)	750.1	748.5	746.2	741.2	860.8 (5/1)	715.3 (1/5)
AUSTRIA						
Credit Aktien (30/12/84)	(c)	582.17	579.66	583.59	703.29 (19/3)	526.59(2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	(c)	6304.75	6281.66	6248.90	6599.43 (12/1)	5868.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	(c)	(c)	377.37	375.29	380.47 (20/3)	352.96 (25/4)
FINLAND						
Unitas General (1975)	577.1	577.2	579.7	578.3	677.3 (23/1)	562.2 (11/5)
FRANCE						
CAC General (31/12/82)	(c)	560.00	562.15	564.62	564.62 (30/5)	482.94 (26/2)
CAC 40 (31/12/87)	(c)	2087.60	2107.51	2120.80	2129.32 (20/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	(c)	782.21	778.43	781.17	830.92 (3/4)	732.71 (24/1)
Commerzbank (1/12/53)	(c)	2265.0	2254.3	2262.6	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	(c)	1856.95	1844.81	1840.54	1968.55 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	[illegible]	[illegible]	3132.32	3083.35	3159.17 (1/6)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	(c)	1710.25	1704.73	1682.05	1893.10 (22/1)	1582.61 (2/5)
ITALY						
Banca Com. Ital. (1972)	748.37	748.99	746.73	746.16	748.99 (1/6)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	32925.37	32891.12	33130.80	32926.26	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2427.24	2426.55	2435.74	2417.09	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	3992.94	3974.62	3938.28	3902.32	4284.68 (9/2)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	583.81	586.54	583.87	582.26	622.20 (28/3)	518.58 (2/5)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	(c)	268.7	267.7	267.4	269.0 (3/1)	240.1 (26/2)
CBS All Shr (End 1983)	(c)	200.3	199.6	199.4	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (Ind) (2/1/83)	(c)	858.57	858.73	855.05	888.73 (31/5)	701.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	800.44	817.30	817.86	798.15	1164.79 (31/1)	798.15 (30/5)
SINGAPORE						
SES All-Singapore (2/4/75)	438.70	434.69	435.24	433.32	443.34 (6/2)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1566.0	1610.0	(c)	1638.0	2230.0 (16/1)	1566.0 (4/6)
JSE Industrial (28/9/78)	2964.0	2961.0	(c)	2946.0	3211.0 (6/2)	2794.0 (25/4)
SOUTH KOREA						
Korea Comp Ex. (4/1/80)	814.40	803.64	797.95	789.89	928.82 (4/1)	686.66 (30/4)
SPAIN						
Madrid SE (30/12/85)	286.63	283.96	284.05	283.76	302.85 (4/1)	248.17 (2/4)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	(c)	1269.50	1265.70	1266.50	1317.80 (12/1)	1127.20 (2/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	(c)	822.1	811.5	814.6	822.1 (1/6)	737.6 (27/3)
TAIWAN**						
Weighted Price (30/6/66)	7347.74	7664.48	7290.88	6857.00	12495.34 (10/2)	6146.44 (25/5)
THAILAND						
Bangkok SET (30/4/75)	1032.75	1012.79	1000.71	987.31	1032.75 (4/6)	760.39 (7/2)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	528.0	525.1	526.4	571.0 (4/1)	468.3 (2/4)

**Saturday May 26: Taiwan Weighted Price: 7857.01. Korea Comp Ex. 804.85

a Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Monday June 4 1990

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Hey	44.2m	1,000	+40
Nippon Oil	31.8m	1,300	—
NKK	22.3m	781	+6
Nippon Mining	19.2m	1,070	+30
Mitsui Ship	14.8m	1,020	unch
Konica	11.8m	1,700	+20
Isuzu Motors	11m	1,110	unch
Toshiba Corp	9.6m	1,080	+80
Ishikawajima-H	9.3m	1,230	+50
Mitsui Rl Est	8.9m	2,020	-10

AMEX COMPOSITE PRICES

4pm prices June 4

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

4pm prices June 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	20¼	AAR	.48	2.2	13	942	21½	21¼	21½	+ ¼
9⅛	8	ACM n	1.01	11.		118	9	8⅞	8⅞	– ⅛
11⅞	9⅞	ACMIn	1.26	12.		787	10⅛	10	10⅛	+ ⅛
9⅞	7¼	ACM M n	1.01	13		573	8	7⅞	7⅞	
12⅛	10	ACMMM				87	11	10⅞	11	+ ⅛
11½	9⅞	ACM Sc	1.26	13.		830	10	9⅞	9⅞	– ⅛
9⅛	8⅛	ACMSp	1.01	12.		z244	8⅞	8¼	8⅞	+ ⅛
23⅛	14⅞	AL Lab	.16	.7	22	127	u24½	23⅞	24⅞	+ 1¼
5⅞	2⅛	AM Intl				535	2⅞	2⅛	2⅞	
23⅛	10¼	AM In pf	2	16.		56	12⅞	12⅛	12⅞	+ ⅛
107⅛	52½	AMR			13	10270	67⅞	65⅞	67½	+ 2⅛
30½	25	ANR pf	2.67	10.		3	25½	25½	25½	+ ⅛
4⅛	3	ARX				453	3⅞	3½	3⅞	
72⅞	40⅛	ASA	3a	6.5		7234	47⅞	46⅛	46⅛	– 1½
38⅛	27⅞	AbtLab	s.84	2.2	19	8630	u38⅞	37½	38⅛	+ ⅛
16⅞	11⅛	AbitibI g	.50			79	13⅛	13	13⅛	+ ⅛
13	8⅛	AcmeC	.40	4.6	10	116	8⅞	d 8⅞	8⅞	
9⅛	7⅞	AcmeE	.32	3.6	11	19	9⅛	9	9	+ ⅛
41⅞	29⅞	Acuson			23	367	39⅛	38½	39⅛	+ ⅛
16½	13⅞	AdaEx	2.08e	13.		199	16⅛	16⅛	16⅛	+ ⅛
15⅞	9½	Adobe				353	12⅛	12	12⅛	+ ⅛
21⅞	20⅞	Adob pf	2.40	12.		12	20⅞	20⅞	20⅞	
11⅛	6⅞	AMD			23	3449	10⅞	10⅞	10⅞	+ ⅛
35	28⅛	AMD pf	3	9.4		8	32	31⅞	31⅞	
10⅛	4⅛	Advest	.16	3.4	90	12	4⅞	4⅞	4⅞	
62½	45⅛	AetnLf	2.76	5.1	9	3256	54	52⅞	53⅞	+ ⅛
14	9⅛	AflIPb	.24	2.3		348	10⅞	10⅞	10⅛	– ⅛
25	16⅛	Ahmans	.88	4.0	10	1503	21⅞	21⅛	21⅛	+ ⅛
3⅞	1⅞	Aileen				2	2⅛	2⅛	2⅛	
58	40	AirPrd	1.32	2.3	15	2981	57⅛	56	57	+ ⅛
24⅛	13⅞	AirFrt	s		16	474	23⅞	23½	23⅞	+ ⅛
25⅛	15½	Airgas			27	45	17⅞	17⅛	17⅞	+ ⅛
20⅞	16½	Airlease	2.40	14.	8	96	17	16⅞	17	+ ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 47

مكتبة امين الاصل

NYSE COMPOSITE PRICES

Continued from previous Page

NASDAQ NATIONAL MARKET

3pm prices June 4

Stock	Div.		Sales 100s	High	Low	Last	Chng
A&W Bd		26	150	31¾	31½	31¾	
ACC Cp	.16	30	54	14⅛	13⅞	14⅛	+ ⅛
ADC		15	616	23	21½	22½	+ ½
ADT		11	1012	32¼	31⅞	32¼	+ ¼
ASK		18	162	9¾	9½	9⅝	
AST		28	1782	u25⅞	25⅛	25½	+ ⅜
Actava s		18	8211	14⅛	12⅞	13⅛	−1⅛
AcmeSt		8	64	17½	17¼	17½	
ActARt	t	20	170	7⅞	7½	7⅞	+ ⅛
Acxiom		19	34	21½	21	21½	
AdacLb	.04j	6	634	1 13-16	1 11-16	1 11-16	− ⅛
Adapt		12	137	18¾	18½	18¾	
Adingt s		14	374	18½	18	18¼	− ¼
AdiaSv	.16	13	20	21¼	21¼	21¼	
AdobeS	.21e	18	11546	34¾	32½	33½	−1¼
AdvCir s		[illegible]	[illegible]	10⅞	10⅛	10⅛	− ¼
AdMkSv		15	73	5¾	5¾	5¾	
AdvPoly			770	6¼	5⅞	6	+ ⅛
AdvTel		18	478	20¼	19¾	19¾	− ¼
Advanta	.10	10	800	u14½	14	14¼	+ ¼
AdvoSy		12	375	11⅛	10¾	11	− ⅛
Aerovx			1197	4⅞	4⅞	4⅞	+ ⅛
AffBsh		20	56	12¼	12¼	12¼	− ¼
AgncyR	.68t	19	230	13⅝	13⅜	13⅝	
Agnico g	.20		182	6¾	6½	6⅝	
AirMd		31	81	5¼	5	5	
AirWisc	t	73	486	11⅛	10¾	11	+ ¼
Airtran	.16	13	1	7½	7½	7½	
Alco	1.79e	5	1746	31⅞	31½	31⅞	− ⅛
Aldus		22	173	25½	25	25	− ⅜
AlexBr	.22	12	971	14⅞	14⅛	14⅞	+ ½
AlexBld	.86	13	1407	32¼	31½	32	+ ½

Stock	Div.		Sales 100s	High
GrosTr			768	7½
CrwnRs			201	6 7-16
CullnFr		35	30	11
Cytogn			355	7⅝
– D – D –				
DF Sou	.05e	5	4	12¼
DH Tch		11	728	14¾
DNA Pl			328	7¼
DS Bnct	.60a	6	110	11½
DSC		16	2858	12¾
Dahlbrg		17	12	16
DartGp	.13	14	20	88
Datacp		12	298	24¼
Dauphn	1.42	9	96	32½
DebSho	.20	12	34	13¼
DekbE	.32	8	6	27¼
DkibGn	.80	15	28	44
Delchm	.40	12	16	25
DellCpt		24	1373	11
DelpFin			27	15¾
DepGty	1.56	6	11	25
Devon s	.06e	8	47	24¼
DeVBul			165	6⅞
[illegible]		7	13	10½
Diagnst		39	194	14¾
Dibrell	.80	10	x211	23¼
Dicson			126	5¼
Digi Int		16	341	u15¼
DigMic		16	501	18¼
DigSd			1125	9½
Dionex		17	34	24½
DirGnl	.20	15	48	11½
DomBk	.88	10	422	14⅝
DressB		16	1828	11½

FINANCIAL TIMES Tuesday June 5 1990

AMERICA

Interest rate hopes push Dow to record close

Wall Street

AFTER A brief pause yesterday morning following last week's record breaking surge, the Dow Jones industrial average surged again yesterday afternoon on optimism that interest rates will be lowered, *writes Janet Bush in New York.*

The Dow traded in a tight range throughout the morning session and then started to rise, led by interest in financial stocks. At the close, the Dow stood 34.22 points higher at 2,935.19, another record high on moderately active volume of 175m shares.

On Friday, the Dow Jones industrial average gained 24.31 points to close at 2,900.97, a record high, encouraged by a strong rally in the Treasury bond market in response to weaker than expected employment data for May.

Financial issues led the market higher with interest piqued not only by hopes of lower interest rates but also because institutional investors are generally thought to be underinvested in financial stocks.

Among the most active issues on the New York Stock Exchange were the Federal National Mortgage Association which jumped $1⅞ to $43⅝, American Express which added $1⅞ to $31½, Federal Home Loan Mortgage which surged $3⅞ to $60 and First Interstate Bancorp which jumped $5½ to $44⅝.

Although the financial sector was boosted by interest rate hopes, the outlook is still uncertain. There is very little economic news this week to clarify the outlook which still seems to be mixed. The rally in the equity market on Friday came largely on strong buying of Treasury bonds rather than the economic data released that day which offered a mixed picture.

The employment data did appear to signal more softness in the economy with very weak job creation in the services sector although some economists believe that overall weakness was overstated. The latest survey by US purchasing managers continued to signal a rebound in the manufacturing sector.

Until further economic evidence emerges, equity analysts are focusing on whether the market can build on its record run of gains, whether it is due for a downward correction and, if so, how much.

L.A. Gear is another stock which was under pressure throughout last week even before Friday's announcement that the company will report its first quarterly drop in net income in three years. That news pushed the stock $8¼ lower on Friday and it only managed to recoup $⅛ to $30⅝ yesterday.

Another stock which has been under pressure is Federal Express which managed to recoup $1 to $48¼ but is still not far from its low this year of $43⅞.

Steels were of interest yesterday after a US press report highlighted increased demand for steel products which is firming up prices. Bethlehem Steel yesterday gained $¾ to $18¼.

Canada

SHARE PRICES bounced back from a 25-point loss in Toronto to close mixed in moderate trade.

The composite index gained 8.51 points to close at 3601.50, but declines topped advances 323 to 266. Volume of 27,524,000 shares was swollen by trading in Nova Corp. which gained C$¼ to C$9¼ on 6,759,008 shares.

Nova announced plans to sell its valve manufacturing subsidiary, Grove Italia S.P.A., for about C$114m. The company said it will report an after-tax gain on disposal of this investment of about C$30m.

Value of trading fell to C$324.2m from C$379.8m on Friday when 28,050,000 shares changed hands.

Gold stocks lost 1.6 per cent on index. Financial services closed little changed with oil and gas, mining slightly higher. Consumer products and industrial products both posted gains of more than 1 per cent.

The going gets tough for European car stocks

Eroding margins and stiffer competition paint a bleak scenario for investors, writes Antonia Sharpe

THE EUROPEAN motor industry has been out of favour with investors for well over a year now, and it is likely to remain so for some time as fears of eroding margins and stiffer competition start to become reality.

The disappointing stock market run of most car companies bears this out. Taking the sector on a country-by-country basis, West German carmakers' shares have underperformed their domestic market by 3.5 per cent over the past year, the Italians by 7.7 per cent and the French by a more worrying 19.8 per cent.

Among individual companies, Volkswagen and Porsche have made hefty relative rises of 17.7 per cent and 14.6 respectively. But elsewhere, shareholders have mostly lost out. In Sweden, Volvo has underperformed the Affärsvärlden General index by 21.2 per cent, while Saab has managed to outperform by 2.8 per cent thanks to a battle for control of the company earlier this year.

Elsewhere in Europe, the picture is similar, with luxury car manufacturers BMW and Daimler-Benz underperforming the FAZ index by 17.5 per cent and 5.4 per cent respectively. In France, Peugeot has lagged behind the CAC 40 index by 19.8 per cent; and in Italy, Fiat has weakened by 7.7 per cent against the Comit index, in spite of a vigorous share-buy-back programme.

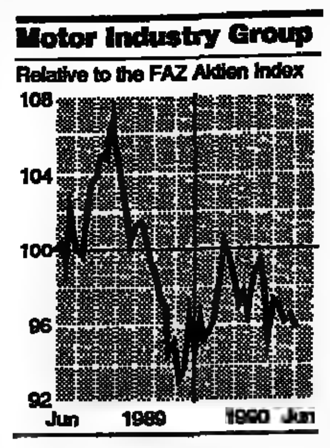
While there is little doubt that the future for the European motor industry is bleak, the fact that fund managers still invest in Europe on a country rather than a sector basis prevents car stocks from being totally ostracised. Not only do most of them have international listings, but they are also among the more liquid issues on continental bourses. On the Frankfurt Stock Exchange, for example, car stocks account for about 15 per cent of the market.

On a fundamental basis, VW and Daimler have attracted buyers for their east European prospects, although some analysts believe this to be overdone. "VW and Daimler are at the vanguard of moves to develop eastern Europe, but we can only expect to see a visible return on investment in the second half of the decade at the earliest," says Mr Stephen Reitman at UBS Phillips and Drew. Mr Reitman also says that both VW's and Daimler's exposure to the deteriorating economic situation in Brazil has not been fully discounted by the market.

Leaving aside the spectre of the Japanese invasion of Europe, continental volume car producers have a more pressing problem. After enjoying record margins, thanks to five years of strong growth in the vehicle market, they face a difficult period as increased capacity and stagnant sales in some key markets take their toll. And eastern Europe cannot seriously be tapped for at least five years.

The west European new car market is forecast to drop to somewhere between a pessimistic 12.9m and a more realistic 13.3m units in 1990, from 13.4m in 1989, mainly because of sharp drops in sales in the UK and Spain. High interest rates in those countries have choked off consumer demand. "Volume car producers not only have to chase fewer buyers, but capacity has also caught up, mainly thanks to the elimination of bottlenecks," says Mr John Lawson at Nomura Research Institute Europe.

At the lower-priced end of the car market, market share is the name of the game, and the gloves are coming off as demand slackens. Manufacturers are under increasing pressure to bring out new models or increase specification on existing lines to protect their positions, all of which will inevitably depress margins. As a result, volume car producers are looking to increase their exposure to the lucrative luxury car market, which is expected to grow thanks to higher disposable incomes in Europe,



as well as an ageing population.

However, margins at the upper end of the car market will deteriorate for all players as the choice widens. Toyota, flush with the success of its Lexus model in the US, launches its luxury car in the UK in June following its European unveiling in Switzerland in March. In addition, Ford will come out with new Jaguar models in the mid-1990s, and General Motors is set to do the same with Saab. "The situation obviously cannot be positive for existing luxury car producers such as BMW or Daimler," says Mr John Longhurst at James Capel Research.

The much-heralded Japanese entry into the European car market, after the creation of the single market in 1992, has prompted European car manufacturers, especially those heavily dependent on their domestic markets such as Peugeot and Fiat, to increase capacity and productivity in order to be more competitive. But given the success of the Japanese car plants built in the US in recent years and the consequent erosion of US car manufacturers' domestic market share, it would be foolish to suppose that the same would not happen in Europe.

The Japanese already have a strong position in so-called "free access" markets in Europe, from about 15 per cent in West Germany to nearly 40 per cent in Ireland and Finland. They have a good chance of gradually building up similar market shares in protected markets such as France, Italy, the Iberian peninsula and the UK, whatever the outcome of the European Community's present tortuous negotiations with Tokyo.

Italy is particularly vulnerable. In the first three months of this year, new car sales rose 5.6 per cent, but sales of Japanese new cars, from an admittedly low base, increased by 33.8 per cent, says Mr Gavin Launder at Kleinwort Benson. "There is a distinct danger that the Japanese will fulfil their year's quota in the first half," Mr Launder adds.

The Japanese threat, however distant, is already at the back of many fund managers' minds. Taking a shorter-term view, they are braced for more bad news than good from European car manufacturers, especially from Sweden's Volvo and Saab. "Car stocks are cheap but sentiment is negative. So it's safe to stay away," says a European portfolio manager at a leading investment house.

Anyone who is determined to hold car stocks should perhaps look to the Far East, where the car markets are still booming. Furthermore, the Japanese motor sector has recovered from a relative weakness of 16.8 per cent in February to stand 8.2 per cent lower at the end of May.

ASIA PACIFIC

Brisk Tokyo start gives way to softening in prices

Tokyo

EARLY GAINS mostly slipped away yesterday, and the Nikkei average finished slightly higher than Friday's close but below its opening level, *writes Martina Gannon in Tokyo.*

Share prices had risen in brisk morning trading as expectations of easier credit had been raised by a decline in short-term interest rates. The weakness of the yen contributed to the day's volatility; trading was fairly light, but frenetic.

Stock and futures purchases were encouraged by the rise in bond prices. Shipbuilding and general contractor shares were bought, as were large-capital stocks related to domestic demand.

The Nikkei average closed 34.25 higher at 32,925.37, near the day's low of 32,898.22, after reaching 33,061.93 at one stage. Advancing issues led declines by 531 to 417, with 188 unchanged.

The Topix index of all listed stocks rose 0.69 to 2,427.24 and, in London trading, the ISE/Nikkei 50 index added 2.10 to 1,817.32. Turnover totalled 650m shares.

Investors had been eager to buy but had lacked inspiration, said Mr George Nimmo, equity sales manager at SBCI. "There was a lot of tail-chasing, as traders searched for excuses to buy, and finally they latched on to mining and construction issues," he added.

The day's biggest gain was by Rheon Automatic Machinery, a food-processing machine manufacturer, which rose 20.5 per cent, adding Y700 to Y4,100. Along with other makers of labour-saving devices, Rheon is proving popular because of Japan's current shortage of workers.

Trading in Nippon Oil shares was briefly suspended in the morning in an attempt to calm a volatile market. The stock closed at Y1,390 in the day's second-most active trading. The activity followed a report on Friday, later denied by the group, that the company was planning a joint venture with Saudi Arabia.

Among other advancing issues were consumer electronics, including TDK, which rose Y40 to Y6,572, and Sony, which ended at Y8,580, up Y30. General contractors rose, with Tobishima, a company active in hydroelectric plants and railroads, rising Y60 to Y1,880.

In Osaka, a wait-and-see mood predominated and trading was thin at 56m shares, compared with Friday's 62m. Chemical, pharmaceutical and oil shares dropped and the OSE average dipped 13.39 to 35,636.95.

Roundup

THE ANNIVERSARY of the Tiananmen Square massacre received a fairly calm response in Hong Kong yesterday, where share prices ended slightly lower after a busy day's trading. A 6.5 per cent tumble in Taiwan and another record high in Thailand were among the other features of a mixed session for Asia Pacific regional markets. New Zealand was closed for a holiday.

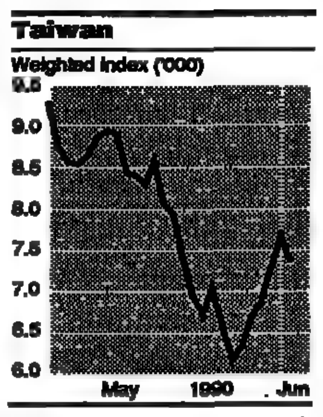
HONG KONG finished broadly mixed in heavy trading after early gains were wiped out by profit-taking. The Hang Seng index fell 5.95 to 3,153.22, having touched 3,200 in the morning on Wall Street's continued rally and the relatively calm anniversary of last year's brutal suppression of China's democracy movement.

Turnover stood at a hefty HK$2.13bn, off slightly from Friday's HK$2.21bn.

A large part of the day's selling affected the Jardine Matheson Group, several of the components of which tumbled on profit-taking and on the prospect of a glut of new shares entering the market through the compulsory conversion of Jardine Strategic Holdings' preference shares.

TAIWAN fell as investors rushed to take profits after last week's rally of about 20 per cent. The market was also undermined by the news that the new Finance Minister, Wang Chien-shien, did not plan to reduce the existing 0.6 per cent stock transaction tax.

The weighted index, which had added 192.53 on Saturday, dropped 509.27, or 6.5 per cent, to 7,347.74. Volume rose to 1.69bn shares worth NT$128.85bn after 1.49bn and NT$111.07bn on Saturday.



Cement and construction stocks led the decline, with their sectoral indices losing 6.8 per cent and 6.7 per cent respectively.

AUSTRALIA was underpinned by Wall Street's gains and rose for the seventh consecutive session in spite of a fall in gold stocks. The All Ordinaries index rose 11.1 to 1,524.9. Turnover rose to 100m shares or A$188m from Friday's 81m or A$158m.

Blue chip issues remained in demand, with BHP up 10 cents at A$9.46. However, the gold miners such as Central Norseman Gold Corp, BHP Gold Mines and Placer Pacific edged down after the bullion price dropped, while diversified miners, such as CRA and MIM, were able to firm by a few cents.

BANGKOK surged in heavy volume dominated by insurance and fruit canning issues, which sent the stock index to a record for the fourth successive session.

The composite SET index gained 19.96 to close at 1,032.75. Siam Cement was up 40 baht at 7,026 baht and Siam City Cement gained 12 baht to end at 281 baht.

SEOUL rallied for the sixth day in succession in heavy volume on rumours of an early high-level meeting between North and South Korea. The composite index closed at 814.40, up 9.55 from Saturday, on a strong turnover of 318bn won compared with 176.7bn won in the previous session.

SINGAPORE drifted lower on stop-loss selling in declining volume, which fell to 44.5m shares or S$104.5m from 53.6m shares or S$117.25m. The Straits Times index fell 3.36 to 1,552.45.

KUALA LUMPUR saw profit-taking after Friday's gains. The composite index fell 2.72 to finish at 583.82 and turnover rose to 36.7m shares from 35.3m.

MANILA was shaken by the murder of a US serviceman. Investors sold for fear of further political trouble. The composite index fell 16.86 to 800.44.

SOUTH AFRICA

THE WEAKENING bullion price, which fell below $360 an ounce, hit Johannesburg gold shares yesterday. The JSE Gold index fell 44 points to 1,566, but the Industrial index managed to make a small gain of 3 to 2,964.

Vaal Reefs dropped R17.50 to R234 and Beatrix lost R1.50 to R26.75.

EUROPE

Milan takes a break while Madrid rises

ITALY FELL on profit-taking yesterday, while optimism about inflation lifted Spain; most other bourses were closed for the Pentecost holiday, *writes Our Markets Staff.*

MILAN dipped at the close as investors took profits after the market's recent advances and gave the market a much needed chance to consolidate. The selling was also sourced to traders adjusting positions early in view of trading account deadlines next week. Next Monday sees the expiry of monthly stock options contracts, while Wednesday marks the last day of the June trading account.

The Comit index eased 0.62 to 748.37 in reduced volume due to the closure of many European markets. Among banking stocks, Banco di Roma continued to rise on expectations that it would soon conclude an accord with Banco Hispano Americano of Spain and Commerzbank of West Germany. Banco di Roma climbed L31 to L2,681 and reached L2,750 after hours.

MADRID was in an optimistic mood and ended the continuous session 0.7 per cent higher. The belief that the next inflation figure would be good and that short-term interest rates had reached a ceiling encouraged buying, although trading volume remained low. The general index gained 1.95 to 286.63.

Among the few active stocks, Telefonica rose Pta14 to Pta834 and Hidrola, the utility, advanced Pta9 to Pta514.

HELSINKI eased in very thin trading. The Unitas all-share index lost 0.1 to 577.1. The total turnover was FM12.3m, of which free shares made up FM2.21m. The Helsinki Stock Exchange yesterday introduced its own index, the HEX, with a general index and sectoral indices. The HEX general index, calculated on a first-day 1,000 basis, ended trading at 996.05.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 4 1990								FRIDAY JUNE 1 1990					DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Dm Index	Local Currency Index	Local % chg on day	Gross Div Yield	US Dollar Index	Pound Sterling Index	Yen Index	Dm Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (81)	138.57	−0.7	122.62	133.67	122.01	120.05	+1.0	5.79	137.59	121.10	131.69	121.11	118.88	158.31	125.85	132.94
Austria (19)	239.93	−0.1	212.31	231.44	211.25	211.23	+0.0	1.28	240.08	211.30	229.62	211.32	211.23	285.63	193.15	120.75
Belgium (61)	150.30	−0.4	133.53	145.55	132.86	129.88	+0.0	4.44	151.55	133.39	144.93	133.39	129.88	160.02	132.11	130.03
Canada (119)	138.96	+0.1	122.96	134.03	122.33	118.38	+0.4	3.45	138.87	122.23	132.81	122.22	117.91	153.61	130.37	138.70
Denmark (33)	255.52	−0.4	225.10	246.48	224.97	224.59	+0.0	1.28	256.51	225.76	245.33	225.77	224.59	260.82	236.69	180.40
Finland (26)	137.75	−0.3	121.89	132.86	121.28	114.46	−0.1	2.39	138.17	121.61	132.15	121.62	114.52	152.29	129.99	146.12
France (125)	162.91	−0.2	144.15	157.13	143.42	145.72	+0.0	2.82	162.55	143.07	155.45	143.07	145.72	168.85	141.89	120.47
West Germany (93)	129.18	+0.0	114.31	124.62	113.73	113.73	+0.0	1.96	129.22	113.73	123.60	113.73	113.73	137.71	122.05	85.57
Hong Kong (46)	130.24	−0.4	115.24	125.63	114.67	130.18	−0.4	4.82	130.80	115.12	125.09	115.13	130.71	130.80	112.24	86.41
Ireland (17)	186.54	−0.6	165.06	179.94	164.24	167.10	+0.0	2.62	187.61	165.12	179.43	165.13	167.10	198.57	172.72	139.03
Italy (96)	106.71	+0.0	94.42	102.93	93.95	99.18	−0.2	2.40	106.68	93.90	102.03	93.90	99.33	107.10	91.85	78.54
Japan (454)	153.99	−0.9	136.26	148.54	135.60	148.54	+0.0	0.57	155.38	136.76	148.60	136.78	148.60	197.26	124.40	176.89
Malaysia (35)	233.27	−0.2	206.41	225.00	205.37	243.42	−0.2	2.21	233.80	205.77	223.59	205.78	243.84	245.32	204.15	178.94
Mexico (13)	549.85	+0.9	486.56	530.40	484.13	1710.39	+1.3	0.30	544.75	479.45	520.99	479.48	1689.11	549.86	324.53	230.30
Netherland (43)	140.88	+0.0	124.66	135.89	124.04	122.58	+0.0	4.60	140.88	123.99	134.74	124.00	122.59	145.66	130.43	116.14
New Zealand (17)	64.83	+0.0	57.36	62.54	57.08	59.67	+0.0	7.37	64.80	57.03	61.98	57.04	59.67	75.36	59.57	65.10
Norway (23)	241.90	−0.9	214.05	233.34	212.98	214.24	+0.0	1.43	244.05	214.80	233.41	214.81	214.24	245.90	202.34	177.48
Singapore (25)	205.59	+0.0	181.92	198.31	181.01	175.55	+0.0	1.93	205.57	180.93	196.61	180.94	175.54	207.28	179.70	157.40
South Africa (60)	190.68	−1.0	168.73	183.93	167.86	160.61	−1.4	3.70	192.57	169.49	184.17	169.50	162.85	251.39	173.80	135.22
Spain (42)	160.88	+0.7	142.36	155.19	141.64	127.73	+0.7	4.16	159.70	140.56	152.74	140.56	126.79	165.19	132.84	148.20
Sweden (35)	211.65	+0.0	187.28	204.16	186.35	191.91	+0.0	2.10	211.73	186.36	202.51	186.37	191.91	211.73	173.89	157.80
Switzerland (56)	103.47	−0.2	91.56	99.82	91.11	92.28	+0.0	2.24	103.69	91.26	99.17	91.28	92.28	104.31	88.75	75.28
United Kingdom (306)	160.95	−0.2	142.42	155.24	141.69	142.42	+0.3	4.73	161.27	141.94	154.22	141.94	141.94	164.31	139.87	137.26
USA (537)	148.55	+1.2	131.45	143.30	130.80	148.55	+1.2	3.26	146.77	129.18	140.38	129.19	146.77	148.55	130.61	131.43
Europe (955)	147.00	−0.1	130.08	141.80	129.43	129.26	+0.1	3.51	147.10	129.47	140.68	129.48	129.07	147.42	135.57	115.32
Nordic (117)	204.08	−0.3	180.58	196.86	179.68	174.89	+0.0	1.72	204.67	180.14	195.75	180.15	174.90	204.67	185.01	153.25
Pacific Basin (560)	152.51	−0.8	134.95	147.11	134.28	146.58	+0.0	0.87	153.77	135.34	147.06	135.34	146.60	192.75	124.63	171.76
Euro-Pacific (1645)	150.67	−0.5	133.33	145.33	132.65	140.05	+0.0	1.92	151.46	133.31	144.84	133.31	139.99	174.18	130.35	149.23
North America (656)	147.87	+1.1	130.84	142.65	130.21	146.55	+1.2	3.27	146.19	128.67	139.83	128.70	144.86	147.87	131.02	131.77
Europe Ex. UK (679)	136.99	+0.0	121.22	132.17	120.64	121.00	+0.0	2.73	136.95	120.54	131.01	120.57	120.97	139.50	124.81	101.39
Pacific Ex. Japan (206)	134.06	−0.2	118.63	129.34	118.05	120.93	+0.3	5.05	133.78	117.75	127.97	117.76	120.51	139.32	122.53	112.70
World Ex. US (1937)	150.90	−0.5	133.53	145.57	132.86	139.93	+0.0	1.99	151.66	133.49	145.06	133.50	139.86	173.77	131.30	148.78
World Ex. UK (2063)	147.74	+0.1	130.73	142.52	130.09	142.71	+0.5	2.18	147.57	129.88	141.15	129.90	142.06	162.00	130.80	142.03
World Ex. So. Af. (2314)	148.64	+0.1	131.53	143.39	130.88	142.51	+0.5	2.41	148.51	130.71	142.05	130.73	141.86	161.84	131.95	141.63
World Ex. Japan (1920)	147.74	−0.6	130.73	142.52	130.10	139.81	+0.7	3.43	146.83	129.23	140.44	129.26	138.83	147.74	134.62	124.97
The World Index (2374)	148.90	+0.1	131.75	143.63	131.10	142.64	+0.4	2.42	148.78	130.94	142.29	130.96	142.01	162.05	132.25	141.59

Markets closed June 4: Austria, Belgium, Denmark, France, Ireland, W.Germany, Netherlands, New Zealand, Norway, Sweden and Switzerland.

Constituent change 4/6/90: Addition: Wiggins Teape Appleton (U.K.) South African prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

EUROPEAN INVESTMENT LOCATIONS

CTION III

Tuesday June 5 1990

Regardless of 1992, the EC will still be a community of differences, with regional similarities ıscending frontiers. The wild ꞁ is eastern Europe. And some ɜide investors fear there may be ɔrtress Europe'. **Hazel Duffy** and **de Jonquières** set the scene.

ılittering rizes

ꞁAPPROACH of 1992 is ꞁing companies, in and ꞁ the European Commu- ꞁ re-examine their loca- ꞁrategies.

ꞁprospective single mar- ꞁnot the sole motivation: ꞁpart of the panoply of ꞁ, which saw global con- ꞁions assume greater sig- ꞁce in location decisions ꞁ1980s.

ꞁwas particularly notice- ꞁ financial services, but ꞁacturers also did their ꞁncreasingly on the basis ꞁrldwide products and ꞁing.

ꞁpetition between govern- ꞁ(national and regional), ꞁand towns has never ꞁore intense. Everybody ꞁa share of international ꞁnent. Politicians, from ꞁ down, work hard to ꞁinward investment. ꞁver the considerable ꞁof internally generated ꞁnic development, the ꞁparts of Europe still ꞁe glittering prize of for- ꞁvestment.

ꞁwild card in the pack is ꞁ Europe. The sudden ꞁexpected dismantling of ꞁrriers has complicated ꞁture for the corporate ꞁst. There are many rea- ꞁhy companies should not plunge in; yet there is a fear of being left out. Most will not want to set up as manufacturers, unless it is through a joint venture. But if they think there are new markets to be satisfied, from where should they be served? From Austria, with a deep knowledge of eastern Europe and east-west trade, but outside the EC; or from West Germany?

Regardless of 1992, the EC will still be a community of differences – land, labour, communications, the cost of borrowing, will be far from uniform across the Community. The boundaries will not be wholly along national frontiers. Regional similarities transcend frontiers. Nord-Pas de Calais, for instance, has more in common with the Netherlands, Belgium and parts of West Germany than it has with south and west France.

Regions and cities are getting together more, to promote their strengths. Amsterdam has teamed up – a little nervously, as they are old rivals – with Rotterdam and The Hague, to market themselves as Randstad Holland, the location for offices, and for distribution purposes.

Distribution and location probably occupy more minds focused on 1992 than the question of manufacturing rationalisation. Antwerp, Zeebrugge, Rotterdam, the prime locations for warehousing and distribution, feel just a little concerned that they will lose some of their edge to locations in central Europe.

Frontier formalities will be eradicated for goods within the EC. Theoretically, that makes one huge warehouse operation more attractive. But many companies prefer not to take the risk of, for instance, fire in just one location. The challenge is to find the optimal location.

The Community's newest members, Spain and Portugal, compete increasingly for manufacturing with Ireland and the northern and western regions of the UK. But Ireland and the UK want more than assembly-type operations. They want research and development, design, and marketing facilities to be set up by their foreign investors, to provide skilled and specialist jobs for young people. The most mobile sector in foreign investment is financial services. London's pre-eminence, stimulated by Big Bang liberalisation, is challenged increasingly by Paris. Many big financial companies, as well as accountants, consultants, and even lawyers, are represented in several European cities. But only one global securities and banking centre is likely to emerge from the struggle.

The patterns of foreign direct investment are complex. Statistics are incomplete, based as they are on balance-of-payments figures that exclude locally-financed investments. A paper from the Royal Institute of International Affairs puts inward-investment flows into EC countries at about Ecu40bn ($32bn) in 1988. One third went to the UK. The next biggest recipient was France.

Foreign investment by Japan continues to run much higher in the US (abour 45 per cent) than in the EC (around 15 per cent). The UK receives by far the biggest slice of this, but foreign investment in the UK by companies within the EC is a much lower proportion than in Spain and France. Intra-EC foreign investment could well be growing faster than investment from outside the Community.

A growing proportion of foreign investment in Europe is in the form of mergers and acquisitions. Some 1,300 cross-border deals, with a total disclosed value last year of Ecu45.3bn, were recorded in Translink's European Deal Review. The US was the single biggest acquiring country (Ecu13.8bn), followed by France (Ecu9.7bn).

Acquisitions are obviously less location-sensitive than greenfield investments, because they depend on companies that have a "for sale" notice.

The motives for foreign investment are undoubtedly fears, among Japan, the US and the Efta countries, of a "fortress Europe" after 1992. Sweden, in particular, has been a notable investor in the EC recently, both by setting up and by acquisition. Reassurances that the EC does not intend to erect barriers around itself have had some impact, but the message has not entirely eradicated the fears.

Brussels hovers over the investment scene, on two fronts. On the one hand, it encourages development of the regions that are disadvantaged by their distance from the centre, and those that have suffered industrial decline. On the other (and they strive to be complementary), the aim is to level the playing-fields in the area of state-aids to industry.

Every EC country offers incentives to industrialists in areas designated for help. Grants can meet as much as half the capital cost of setting up. But in most countries they are no longer automatic. Companies have to convince governments that the incentive can be justified, and governments must satisfy the European Commission that they do not exceed the ceilings set by Brussels.

Austria escapes this regime. It can, and does, offer very attractive financial packages. Switzerland, too, is outside the discipline. For certain types of investment, it is an attractive proposition.

Tax concessions can also be generous, and are gaining in importance as grants increasingly come under the microscope of governments anxious to cut public spending. Additionally, Britain and France have enterprise zones, to encourage new investment in areas where old industries have closed down. Ireland has negotiated special concessions from Brussels, to entice financial service companies to Dublin.

The actual choice of location will always depend on a variety of factors. Getting it right demands a studied and neutral approach. The consequent savings can be considerable.

In this survey

Business becomes a partner

☐ FOR THE first time, business investors are being invited to help the European Commission to help the regions of the EC.

The first step towards establishing this consultative role will be a conference about to be held in Dublin .... *Page 3*

ALSO IN THIS SURVEY

■ Labour ■ Accommodation ■ Telecommunications ■ Airports . . . each is an important factor in the choice of location

Skill matters more

LABOUR IS becoming a more complex part of an investment decision within Europe.

The traditional search for low labour costs, peaceful industrial relations and liberal labour regulations is becoming inadequate.

Yet it would be hard to guess this from the debate about the European Commission's Social Charter. Support for the charter, from states with strong employment regulation, suggests a feeling of vulnerability to the mobility of capital, on grounds of labour cost.

Companies have also used the threat of capital mobility in investment decisions – such as General Motors' siting of its V6 engine plant at Ellesmere Port, Merseyside – to force changes in local union agreements, and to convince workers that wage restraint is needed.

But there are a number of reasons why simple wage-costs and industrial relations climates are having less influence on investment decisions. They include changing production methods, a convergence of wage costs, and shortages of skills in many regions.

The emphasis on product quality in high-technology industry has combined with the automation of many simple manual tasks to reduce the demand for low-wage, low-quality labour. Companies increasingly seek adaptable skills, for which they will pay.

Mr Tim Epps, personnel vice president of General Motors Europe, argues that labour costs in a car plant now depend less on hourly rates for attendance than on workers' commitment to quality and willingness to work with managers to drive down overall production costs.

"Labour costs vary in many ways," he says. "It is not just counting how much each worker earns per hour. The bigger differences happen in the work system – the softer-side elements, like the ability of managers and employees to work together to reduce costs."

Mr Alain Hagelauer, chief financial officer of Thomson-CSF, the French electronics and defence groups, says the importance of wage costs in investment decisions varies. For products such as consumer electronics, wages may be only 10 per cent of total costs.

"In cases like the making of television tubes, production is very automated, and labour costs are less important," he says. "Then the guiding light in an investment decision might be the financial package we obtain from either the country or the region."

The likelihood of companies making simple choices among regions on grounds of labour cost is lessened, both by the convergence of wage levels in European Community countries, and by the relatively small differentials in unit labour costs among them.

There was a gradual convergence in wage levels in European manufacturing during the 1980s. Taking the EC average as 100, West German manufacturing earnings were 128 in 1978, but fell to 109 in 1984. In the same period, Italian earnings rose from 65 to 79.

More significantly, a comparison of unit labour costs across EC countries shows that absolute wage costs are a bad guide to unit wages. In 1987, with UK unit labour costs taken as 100, costs in West Germany were 98, in Ireland 112 and in Greece 122.

Different skill and productivity levels mean unit labour costs tend to cluster more than simple earnings levels. Earnings ranged between 175 for Denmark and 25 for Portugal, while unit labour costs (excluding Greece) grouped between 98 and 122.

The fall in the labour component of goods made by simple manufacturing processes also works against simple wage levels' determining investment. The most mobile plants – those assembling imported components for domestic markets – now require less labour.

At the same time, past restrictions on manufacturing investment, in the form of unhappy industrial relations and strict labour regulations, are tending to weaken. Industrial disputes have fallen from 1970s levels in many EC countries, while regulation is harmonising.

This suggests a weakening of the motive for inward investors to indulge in "social dumping" by settling in regions of low wage cost and minimal regulation. There are also growing reasons for investment to be decided on other aspects of local labour supply.

The most important are skill and the local education and training infrastructure. The growing demand for skilled technicians and professional-grade workers means companies are being forced into costly recruitment methods.

Mr Hagelauer says that labour costs can rise towards 40 per cent in Thomson-CSF's more research-based operations, such as defence. The company is already considering hiring engineers from India, because of the shortages of suitable skills in Europe.

This tends to drive the company towards countries with the right supply of skills when choosing locations for the higher end of its product range. France, West Germany and the UK are favoured for engineering skills, rather than Italy, Greece and Spain.

Occupational forecasts predict strong growth in managerial and professional jobs during this decade, with falls in demand for operative and low-skill tasks. This suggests that companies will increasingly be driven towards supplies of higher skills.

Mr Epps argues that GM is "one of the largest educational institutions in the world", and that it provides considerable education and training at locations such as Saragossa, in northern Spain. But even GM would have difficulties training graduate engineers from scratch.

A number of trends – growth in demand for skills, automation of routine tasks, convergence of wage levels, manufacturing techniques emphasising quality – are now pushing companies away from simply seeking low wage costs in investment decisions.

The inflexibility taking the place of collective wage-cost and industrial regulation is the limit on supply of individual skills. In the 1990s, companies are likely to become increasingly wary of locating in places where the quality of labour is inadequate or unreliable.

John Gapper

Look for a fast road near regular flights

THE "HASSLE factor" is how John Dunning, professor of international business at the University of Reading, explains the importance of airports when businesses choose investment locations.

"The proximity of airports, together with effective and cheap telecommunications represent key variables for multinationals choosing the country and location of a European headquarters," he says.

"Questions such as these are becoming far more important than traditional determinants such as the quality and price of labour, land prices or manufacturing costs."

The reason is executives' increasing need to travel – not only between their European headquarters and subsidiary companies elsewhere in Europe, but also back to their company's world base in the US or the Far East.

For most business people, despite the blandishments of club- or first-class, these trips soon lose their glamour.

A study by Prof Dunning of 83 multinationals, which decided to locate either their European headquarters or a branch office in the UK during the mid-1980s, showed that, in choosing a regional headquarters, the most important factor was the need to be near an airport.

For branch offices, only proximity to clients, market size and prospects, and language were rated above proximity to airports (John H.Dunning: *Explaining International Production*, Unwin Hyman, 1988).

Rank-Xerox, the copier and information technology group, is typical. It has an in-house travel agency at its European base with as many as eight to 10 people to handle the travel arrangements for its 1,000-odd staff.

Three years ago, when the company decided to move its European headquarters from central London, it relocated at Marlow, near High Wycombe, close to the M40 motorway and only a short drive from Heathrow airport. It says proximity to the airport was a primary consideration.

Efficiency transport links to airports are important, too: fast roads and frequent fast trains. Airports such as Paris' Charles de Gaulle, Amsterdam Schipol, Geneva and London Gatwick are well served by rail links – though Prof Dunning warns that Heathrow, with its

WHY THEY CHOSE THE UK: on a scale of 0-5
Factors influencing location of an office in the UK
Mid-1980s: data from 83 respondents

	Branch office	Regional office
TRANSPORT & TELECOMMUNICATIONS:		
Airports	2.6	3.5
Postal services	1.8	2.4
Telephone and telex quality	2.3	3.0
Telecommunications costs	1.8	2.5
MANPOWER COSTS:		
Local professional or technical	1.9	2.3
Local secretarial or clerical	1.6	2.1
LANGUAGE, SOCIAL, CULTURAL:		
Language	3.0	3.4
Living conditions for expatriates*	1.6	2.3
BUSINESS FRAMEWORK:		
Level of corporate taxation	1.5	2.2
Availability of Govt incentives†	1.0	1.5
ACCOMMODATION:		
Availability of right premises	2.5	2.9
Cost of premises to rent etc	2.2	2.6

*Housing, entertainment, health care, education. †Grants, tax allowances, etc
Source: John H.Dunning: Explaining International Production (Unwin Hyman, 1988)

Underground service, could lose some of its attraction if the Heathrow-Paddington station link is not built soon.

However, companies look not only at the proximity of airports but also at the frequency of direct flights, to allow flexibility. Failure to catch an aircraft can mean missed meetings or an overnight stay.

For most business people, despite the blandishments of club- or first-class, routine trips soon lose their glamour

Mr David Rees, director of the European location advisory service at Ernst & Young, the management consultants in London, gives the example of one Washington-based client that was looking for a location for its European headquarters. Factors included the cost and quality of labour, taxation, incentives, telecommunications costs, property and office costs, export issues and trans port costs.

The company chose a site near Heathrow – a decision heavily influenced by the fact that it was the only European airport offering a satisfactory frequency of direct daily services to and from Washington.

Such considerations prompt many high-technology companies to locate near the airport. Apple has its UK base at Stockley Park, near the junction of the M25 and M4 motorways; Digital is based in Reading; while IBM and Racal and hundreds of software companies are based in the area.

For manufacturing companies, airports have not historically been as crucial, admits Prof Dunning. However, he believes that, as companies integrate their manufacturing operations and turn increasingly to just-in-time inventories, easy and regular access to air cargo operations will become more important.

Airports' role in attracting investment has not been lost on many governments and local authorities, and partly explains a willingness to invest heavily in them. For example, Aéroports de Paris, the company that owns the Paris airports, has invested FFr3bn ($535.3m) over the last five years, and expects to invest a further FFr9bn over the next four, in new facilities and transport links. Schipol is investing Fl 1.5bn ($802m) over the next five years.

Regional airports are also investing heavily. They believe the growth of air travel will mean that the larger hubs will be unable to cope. Lufthansa believes that 68.5 per cent of delays are already caused by inadequate infrastructure.

Mr Jean Chemain, director general of the chamber of commerce and industry at Lyon, thinks the shortcomings of infrastructure at major airports will provide opportunities for the smaller airports.

New aircraft capable of operating economically with small loads on long-haul routes, together with the introduction of small jets able to fly from spoke to spoke and so avoid congested hubs, will allow the smaller airports to grow rapidly, he argues. The potential allows Mr Chemain to justify the FFr2bn that will be spent on Lyon's Satolas airport and neighbouring facilities over the next five years.

Paul Abrahams

Phones without frontiers can help cut the bill

A MAJOR operating cost for many companies, particularly one with several overseas offices, is the telephone bill. But do national and international phone tariffs actually affect the decision where to locate a overseas headquarters?

Many find that, because of the growing international deregulation of telephone services in Europe, they can locate their main office to take advantage of political or market-dictated conditions, while enjoying cheap telephone services by locating the hub of their network elsewhere – in a different company.

The telephone company of the Netherlands, for examples, is promoting the low cost and high quality of its services, to enable international companies to do just this. It cites the example of the Society of Worldwide Interbank Financial Telecommunications (Swift), which runs the international electronics payment network. Swift is headquartered in Brussels, but has one of its main telecommunications centres in the Netherlands.

This, points out Mr Hugh Small, European director of Arthur D.Little, the management and technology consultancy, raises the central issue of whether communications tariffs influence the siting of a headquarters, or just the siting of the communications facilities needed to support those new facilities.

It is the quality of telephone services, rather than the tariffs, that is more likely to influence the siting of a new offices, believes Mr Small.

He offers the example of a company that may not want to set up a huge, monolithic office. Instead, it may prefer to open an impressive front office in one of Europe's capital cities – Paris, London or Rome – but carry out all the back-office functions, such as data-processing and invoicing, from offices that are cheaper to buy and where wages are lower. It may even be essential, in order to avoid staff shortages.

In this case, says Mr Small, they need to site their headquarters in a country that has a facility called "direct dial in" – where an incoming caller can dial directly through to the phone extension of the person he wants to talk to. If the caller has to go through an operator, it involves employing extra staff and also eliminates the convenience of colleagues being just an internal phone call away in the same building.

Or a company may need to locate in a a country that has good quality and low-priced leased line services, to link the offices together. If that involves linking huge, number-crunching computer centres, then digital leased lines are needed.

Another technique for communicating between offices is the use of satellites to transmit data backwards and forwards, using small dishes screwed to the roof. But this sort of service – popular in the US – is only just being introduced in Europe. At the moment, the only European country allowing two-way phone calls to travel between these very small aperture terminals (VSATs) is West Germany.

In the early 1980s, the liberalisation of the telecommunications industry in the UK – it is still the only country with two public telephone companies – was one of the factors luring many companies to the island, particularly those with heavy communications requirements. Mr John Whitney, Director of Business Development for Electronic Data Systems, the computer and communications management company, says his company set up in the UK for just this reason.

Now, however, the UK's lead is being gradually eroded, with pressure from European bodies to harmonise the rules across the continent.

In terms of services, many countries now offer a variety. Tariffs can still vary from country to country. In 1989, for example, a three-minute peak-rate call to Japan cost the equivalent of $5.5 from West Germany, $6.57 from the UK, but $11.80 from Italy, according to figures from the Yankee Group Europe, the high technology consultancy.

It is this tariff variation, combined with differing rates for private leased line services, which, believes Mr Small, still gives ample opportunity for "arbitrage opportunities", as he calls it, to companies wanting to cut their international phone bills.

A classic example might be a Japanese company that set up a number of offices in Europe, and wanted to contact them all on a regular basis. It could be cheaper for the phone traffic from several continental European countries to be sent across a dedicated leased line to a communications centre in the UK or Ireland, for example, and routed from there to the US.

The cost of a 2Megabit-per-second line from Ireland to Japan is the equivalent of $50.68, say the Yankee Group. The cost of the same circuit from Finland to Japan is the equivalent of $124.70.

Della Bradshaw

Property's labyrinthine way

AS THE EC internal market strengthens, it is assumed there will be more cross-border property transactions. These will have to run the gamut not only of fragmentary property markets but also of legal systems.

Moves to bring continental order to national systems are not on the political agenda. Property is the forgotten sector of the 1992 programme. Few in the industry expect simpler cross-border transactions until the middle of the decade.

Companies expanding across borders, therefore, must accept that there are different attitudes towards what makes, for example, a binding agreement. In England, there is a simple exchange of signed contracts; but in France, Germany and Spain, a third party, usually a notary public, is needed to establish whether a contract is valid. In the Netherlands, an oral agreement is binding.

Similarly, stamp duty or transfer tax varies sharply: 1 and 2 per cent in the UK and Germany respectively, but 12.5 per cent in Belgium and 18.6 in France. Value added tax varies from 12 to 20 per cent.

The position is further complicated by the uneven nature of professional advice available, despite moves to create a uniform system of property valuation, based on the guidelines of the Royal Institution of Chartered Surveyors.

All these problems are compounded in eastern Europe. The movement from the planned to the market economy is inevitably being accompanied by a redefinition of property law, to permit, if not private freehold ownership, at least extended leases allowing the occupier to continue business without hindrance.

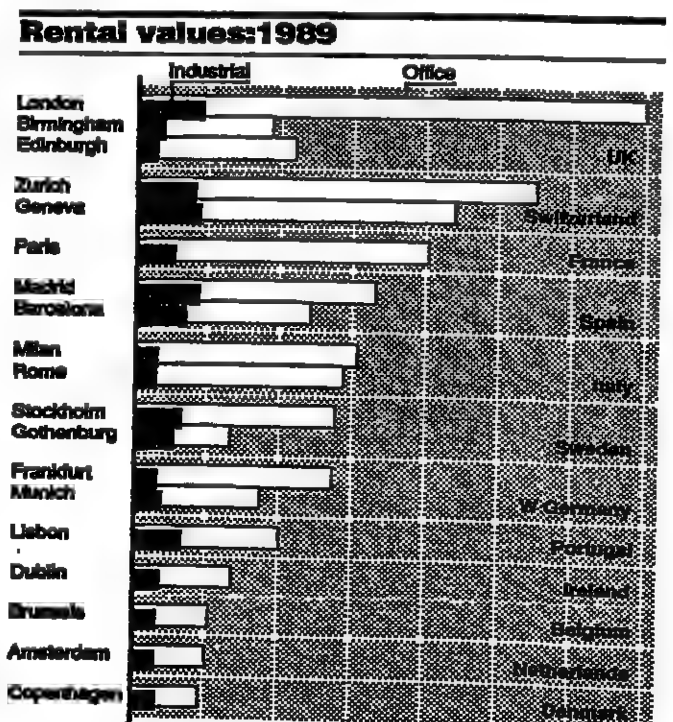
While there appears no immediate rush to invest in Bulgaria and Romania, interest in the Soviet Union and the other countries of eastern Europe is rising.

The Soviet Union has passed joint-venture laws and opened the way to the leasehold ownership of property. East Germany will be absorbed into the West German system of property law, but not without the pain and argument associated with finding a solution to property claims dating back over 40 years. Czechoslovakia, Hungary and Poland are seeking to move their property law systems into line with a free enterprise economy.

Most companies seeking an expansion in eastern Europe will need to be satisfied about security of tenure. The evidence so far is that, in most countries, they will have to wait. Such is not the case elsewhere in Europe. There may be considerable hassle in coming to terms with different practices, but this is largely a question of research, understanding and management time.

Accommodation costs are likely to be a relatively small proportion of total start-up costs. Figures from Hillier Parker, chartered surveyors, show that London is the most expensive capital in Europe for office space. But Noel Alexander Associates has also demonstrated that, in the case of a bank establishing a small London branch, the actual cost of space accounts for just over a quarter of the first year's budget; it comes to just under 60 per cent of the total for staff salaries.

The proportion of total costs devoted to accommodation is likely to decline for a company deciding to stay away from the area of economic activity. Malmo's office rents are less than half of Stockholm's; Marseilles' less than a quarter of Paris'; Valencia's roughly a third of Madrid's.



The exception to this general rule is West Germany, where there is no dominant property-market centre. The country has a series of regional capitals, despite the significance and added cost of Frankfurt as the financial centre. And over the medium term, relative rental levels may change, because of the gradual opening of Berlin.

In the same way, office accommodation costs are likely to fall, the further a company goes from the economic heart of Europe. The markets of Cork and Oporto are less frenzied than any in that strip of territory running from the UK Midlands, through London, Paris and Frankfurt to Milan.

Industrial rentals vary less sharply, though they too tend to be higher near the main conurbations. The main determinants are likely to be communications in general, and motorways in particular.

But industrial accommodation costs will also be affected by the development incentives and tax allowances. The enterprise zones of the UK, with 100 per cent capital allowances and local property tax concessions, are one example. The tax concessions granted by the Irish authorities are another. Of all the property sectors, the industrial has the most distorted market.

Against this background of varied rental patterns is the flow of investment funds. Property is becoming more of an international investment. The Japanese movement of funds into London is a case in point. International funds are being established in both Europe and the US to invest in European property.

Investment flows may add uncertainty to the already complicated calculation of balancing accommodation costs against the operationally most effective site. For certain sections of the market, the flows are likely to make prices more volatile.

Paul Cheeseright

Japanese investment

Prompted by a global outlook

LATEST survey of nese manufacturing enter- s in Europe, carried out by Japan External Trade nisation (Jetro) reveals a nuing major influx of Japa- companies wishing to lish a presence, or expand operations, there.

cording to the survey, h was carried out between mber 1989 and January year, the number of Japa- manufacturers in the 18 tries of the EC and Efta by 118, to a total of 529 panies, in the one-year d from January 1989 when revious survey results were unced.

e most popular location nues to be the UK, which has a 132 Japanese compa- followed by France (95), Germany (89) and Spain

type of business, the larg- umber is in the electronic electronic equipment/parts r (139), chemicals (83), gen- machinery (66) and trans- tion machinery/parts (38).

e 270 Japanese firms that nded in the survey had an age paid-up capital of n, annual sales of $61.8m, mployees and six expatriate members.

e most common reason by the companies for mov- nto Europe was a general sion in their global busi- strategies. Few described ntegration in 1992 as being self a primary consider- Their most common for complaint was diffi- in finding local sub-con- ors able to meet require- s in terms of product ty and delivery time.

e impact of these new als in Europe is already nse. In a speech to Japa- businessmen in Tokyo, in Mr Nicholas Ridley, the Trade and Industry Secre- claimed that Japanese in Britain were creating jobs and making a major ibution to the nation's ts.

also outlined the commer- und social reasons that he dered were behind many choice of the UK as a ion. These included low r costs, a skilled work- a welcoming environment red by the Government, he English language.

Jetro spokesman, Mr ki Yuoka, confirmed that nglish language and strong nmental support had both decisive factors behind the of many Japanese compa- n Britain, and added that use many R&D centres assembly firms have y established themselves UK, particularly automo- and electronics firms, r firms and sub-contrac- ave often followed them

particular encouragement UK was the decision by a er of leading companies, ting Nissan, Sony, Canon Sharp, to establish their ch and design headquar- the country. (Jetro's sur- vealed that Japanese man- rers now have 73 design es and R&D bases in e). In Nissan's case, a ite £31m technology cen- s been established for the and development of new es for the European mar-

Nissan spokeswoman in , Ms Miyuki Abe, said the s for choosing the UK as erations centre included se of spoken communica- bundant human resources e automotive industry, as automotive engineers, cians and new university ates; and the fact that Nis- d previously selected the s its principal source of otive parts.

nnological expertise is also tor. Sharp Corporation sman, Mr S.Minamihori, is firm was establishing D laboratories in the science park principally e Oxford is "at the fore- of fundamental research ectronics, where excellent chers gather". Optoelec- will be a main research at the new Sharp facility.

e survey, Japanese com- described local parts-sup- a an area of difficulty. whether they were con- th local components sub- tors, 69.2 per cent said ere not, while the remain- re – a slight improve- ver the 76 per cent dissat- n figure of the previous

main areas of complaint lelivery (cited by 36.4 per quality (34 per cent) and 28.4 per cent). Asked r they were helping with pansion or improvement r local sub-contractors, out of the 90 respon- aid they were offering to. atisfaction with local supply was particularly in the electronics and cal equipment sector, 20 out of 29 offered a neg- iew; and in assembly es, where only 15 out of satisfied.

message seems to be get- rough. The British gov- t has announced a int initiative to promote standards of component manufacture and delivery. This consists of a Way Forward campaign, by the National Economic Development office, aimed at encouraging makers to be competitive in quality, price and service; an Enterprise Initiative, to provide firms with improved specialist advice on all aspects of business activity; and a Managing in the 90s program, which stresses the importance of design, quality purchasing and supply and manufacturing management skills.

The Jetro survey provided some evidence that the performance of European parts-suppliers is improving. The average ratio of Japanese manufacturers' local content for parts and materials rose to 67.2 per cent (for 277 items) from the 51.2 per cent recorded at the time of start-up (243 items assessed). However, there was much variation between industries.

In the precision industries, local content has reached only 55.3 per cent – up from a start-up figure of 39.4 per cent – while in the general machinery sector, which at start-up recorded a 59.2 per cent figure, the total is now 67.5 per cent.

Progress was also reported by Japanese manufacturers in the localisation of management, with 70 per cent replying that the situation was improving, with local personnel promotions increasing in number.

The move into Europe is already proving profitable for most Japanese arrivals: of 236 companies responding, 139 reported a profit in 1989; 41 broke even; and 56 remained in deficit. In each of the three categories, the figure represented minor improvement on the previous year.

Roy Garner

Hazel Duffy previews a conference on EC policies towards the regions

Business becomes a partner

FOR THE first time, Brussels is inviting business investors to help the European Commission to help the regions of the Community.

The initial step in establishing this consultative role for business will be the conference "Regional policies in the European single market – a new partnership with business", to be held in Dublin on Sunday and Monday.

Three European commissioners will host the conference, in conjunction with the Irish government, which holds the presidency of the EC until the end of this month. Some senior executives from international companies will also speak.

Mr Bruce Millan, commissioner for regional policies, and one of the architects of the conference, sees Dublin as having a dual purpose: to inform business about what Brussels is doing for the regions (there is a much lower level of understanding about the European role than there is on national governments' policies); and to enable the Brussels bureaucrats to get a better feel for why business decides to locate in a particular area.

In the process of this two way exercise, Brussels wants to hear from business what it is that is needed in the regions to enable investments to be efficient and make profits. Business information will provide pointers to what Brussels should be doing.

The European Commission's role in the regions has been much enhanced in the last five years. Spain and Portugal argued – successfully – that they would need special help in joining the EC, and there was recognition that the poorer regions must be helped to compete in the post-1992 single market. That regional role looks like being enhanced still further in the plans to achieve some form of monetary union.

European policy starts out from the self-evident premise that the regions are unequal in bidding for investment by business. The problem is partly one of distance from the geographical core of the market, although the peripherality problem may well be more psychological than real, says Mr Millan. The choice of location will depend very much on the type of operation planned.

Special measures, like advanced telecommunications equipment, can make seemingly remote places very attractive. Industrial decline, and its devastation of certain areas, *is* equally a problem which the Commission, in conjunction with the governments of the member states and regional and local authorities, is trying to combat.

It has two main instruments to help it. The first is the structural funds, which will disburse Ecu60bn ($48.5bn) by the end of 1993. The biggest is the European Regional Development Fund. Some money goes to companies investing in the regions, paid through national governments. But most is allocated to improve communications, including telecommunications, and projects planned to enhance and diversify the economic base of an area.

Maximum rates of capital grant award in EC countries*

	Percentage grant in assisted areas
Belgium	15 – 20 NGE†
Denmark	25 – 35
France	17 – 25
West Germany	12 – 18
West Germany: zonal border area	12 – 23
Greece	25 – 75
Ireland	45 – 60
Italy	40 – 56
Luxembourg	17.5 – 25
The Netherlands	25
Portugal	33 – 75
Spain	20 – 75
UK	20 – 30 NGE†
UK: Northern Ireland	50

*Maximum nominal rate of capital grant award. In both Belgium and the UK, the rate is expressed in terms of the EC aid ceiling, i.e., in net grant equivalent terms, after tax. †NGE = net grant equivalent after tax.

Source: University of Strathclyde European Policies Research Centre

Something has to be done to boost the attractions of the poorer regions. But the policy is not simply based on cash hand-outs. Business investment, from Japan, the US and the Far East, as well as by European-based investors, is its fruition

Increasingly, the fund helps to provide small workshops and industrial units.

The Social Fund helps with training and social projects, designed to equip the workforce with modern skills. Most of the money has been paid in areas of industrial decline, and to ensure that the workforce will be there to operate the new hotels, convention centres and ports that the regional fund is supporting. There is also a fund which helps diversify predominantly rural areas, by introducing light industry *and services*.

The second Brussels instrument is the control of subsidies and aids meted out by national governments. The aim is to make sure the playing-fields are level. The method is to restrict aid to industry in prosperous areas, and, increasingly, to industrial sectors where there is overcapacity. Less advantaged regions are permitted higher levels of state aids.

The two-pronged policy does not always make for the most harmonious mix in the Commission, one resting on straight-out intervention, the other on setting the framework *within which market-forces* will operate.

Mr Millan does not believe that it would be enough to leave regional policy to the latter. A former Secretary of State for Scotland in the last Labour government, he wants intervention where there is a need. "Prosperity tends to feed on itself," he says.

Something has to be done to boost the attractions of the poorer regions. But the policy is not simply based on cash hand-outs. Business investment, from Japan, the US and the Far East, as well as by European-based investors, is the fruition of the policy. They bring jobs and wealth, and their presence increasingly puts pressure on governments, and on Brussels, to further improve facilities in that region.

The current programmes, supported by the structural funds, expire in 1992 in the industrial areas (Objective 2, in Brussels jargon) and 1993 for the under-developed regions (Objective 1). But Mr Millan will tell business leaders that he is confident they will be succeeded by new programmes.

His own thoughts are veering towards a more radical solution, to make Europe more equal. Some form of redistribution of wealth between surplus and deficit regions, as part of a bigger Community budget, is one option that he thinks should be looked at "very seriously" by the inter-governmental conference.

The significance of the Dublin conference is that business is being invited to contribute its thoughts on what it thinks the regions need.

Bruce Millan sees the conference as having a dual purpose

Why Toyota chose Derby

Cultural parallels and government support helped to land the big one

TOYOTA Motor Corporation's new car plant, at Burnaston, Derbyshire, entails investment of around £700m, making it the biggest single industrial investment of a foreign company in the UK.

First-phase operations will begin in late-1992, when it will produce 100,000 units annually *of an 1,800cc passenger car and* provide employment for 1,700 people.

When the second-phase is complete, in the mid-1990s, output will rise to 200,000 units, and there will be a total workforce of 3,000. Local content of the cars will be approximately 60 per cent at start-up, rising to a target of 80 per cent.

'For Britain, we will essentially create a new management system, which will employ a mix of Japanese and UK styles, including such things as quality control circles'

The plant will handle stamping, body-welding, paint and plastics operations and assembly, and will be complemented by a £140m engine plant, handling machining and assembly, to be constructed at Shotton, in Clwyd, North Wales.

The venture would appear to be timed to coincide with the *integration* of the EC. But Toyota spokesman, Mr Jim Sakaguchi, says the linkage is not in itself significant: "The 1992 unification was not a big factor in our decision on the UK car plant. We would have made the move anyway, because we wanted to produce locally. And in reality it is not as if everything will change one day in 1992; it will be a gradual thing. Simply, we want our vehicles produced where the demand is."

The company's European ties date back to December 1962, when it exported its first *Crown models to Denmark. It* began selling cars in the UK in 1965, when Toyota (GB), a wholly-owned vehicle distributor of the Inchcape Group, was formed.

In January this year, it announced it had reached a basic agreement with Inchcape on the amicable purchase of a 51 per cent stake in the Toyota (GB) holding company (TGB). Under the £60m deal, TGB becomes the exclusive Toyota vehicle distributor for the next 18 years.

Toyota's design and research *programs will continue to be* handled by its Epoch technical centre, in Brussels, which will develop models tailored to the Europe market. Mr Sakaguchi said that the company was hoping its expanded presence would help the firm keep up with consumer tastes and also eventually produce spin-offs that could can be applied to other markets around the world.

Toyota, he said, had a number of reasons for choosing Burnaston, beyond its previous links with the UK. "Language was a factor, as was government support. Mrs Thatcher was most aggressive in inviting us, and we felt confident we would have the clear and full support of the British government in the future. We also considered the industrial relations situation had improved."

Cultural similarities between the Japanese and the British also played a part. Mr Sakaguchi was "surprised to discover that the less direct negotiating style of the British is very similar to ours. In some ways, *British people's* way of communicating is more similar to Japan's than to America's. On procurement issues, dealing with parts suppliers, getting bids, receiving estimates and so on, relations should be smooth."

Experience in the US could prove useful in the UK start-up. "There, we established a hot line from the workshop floor to the personnel department," notes Mr Sakaguchi. "Workers could use this to ask any kind of question or make complaints, and this could be applied in the UK too.

"But, for Britain, we will essentially create a new management system, which will employ a mix of Japanese and UK styles, including such things as QC [quality control] circles."

Another feature of the proposed UK plant, common to the US, will be the virtual absence of the *kanban*, or just-in-time, system of component-delivery that is widely employed by Toyota in Japan. "In Toyota City, all the suppliers are clustered together, making the kanban system feasible. But in the US and Europe, parts-suppliers are widely scattered. However, the principles of efficient parts delivery will remain intact."

The company says it has also learnt much in the US about the importance of community ties. Toyota already has four Japanese staff in its liaison office in Derby, and this will rise to 10 or 15 when the plant opens. These people, together with British executives already being hired, will work through such channels as a "community liaison committee" and local government, to ensure a smooth transition as the plant expands.

Roy Garner

EUROPEAN INVESTMENT LOCATIONS 4

A checklist for those choosing a new location in Europe

A COMPANY based near Brussels airport has specialised for many years in helping clients to pick European sites. Plant Location International (PLI) was set up by Prof Marcel De Meirleir, who now runs the European Regional Development Organisation, a forum for bringing together international companies and regional representatives at its annual seminar (this year, the globalisation of industrial investments is the theme).

Dr W. Vossen, managing director of PLI (since last year, part of Price Waterhouse), outlines the consultants' order of thinking in choosing a location. They may sound obvious, but it is surprising how often companies start somewhere in the middle of the list...

■1, Define the problem: For instance, does the investment need to be near the main company, near the marketplace? Is it really mobile; or does it, for example, involve dangerous substances, which cannot be transported?

■2, Prioritise likely future requirements: For instance, will an advanced telecommunications system for sending data be required?

■3, Define the location areas: This can be done negatively as well as positively, identifying what an area does not have as well as what it does. If a drug manufacturer is planning a research laboratory, it probably needs to be within 90 minutes of an international airport, to be close to a teaching hospital, and to offer a high quality of life to prospective employees.

■4, Cost: This falls into two stages – capital investment and operating costs. The first covers land, building and equipment; the second, labour, utilities, transport and environment. In calculating the net cash investment in this stage, borrowing costs, tax incentives and import duties should be considered.

■Finally, Dr Vossen lists the "intangibles" which every company should take into account. These include political stability in the country, education, and labour laws. "Location is about 'where', 'how much' and 'quality' – and the best location is a compromise between the last two."

Hazel Duffy

David Lascelles considers new factors in the competition between *Europe's financial centres*

Frankfurt's star may be rising in the east

AS THE recent tussle over the location of the future European Bank for Reconstruction and Development showed, competition among Europe's financial centres is sharpening all the time.

The fact that London won may have reinforced the City's position as the EC's prime financial location – a position which no other city seriously challenges. But other issues will increasingly influence the distribution of financial services industries round Europe.

The biggest question is how far events in east Europe will shift activity towards Frankfurt, the obvious centre because of its geographical location and Germany's close ties with the East – as well as the huge store of capital available from German savers and institutions. This should provide a big boost to a city whose financial standing has never matched Germany's industrial might.

"Most of east European development will be financed via the German capital markets," predicts Mr Barthold von Ribbentrop, director in charge of equity market operations at the Deutsche Bank.

But German bankers also warn that the process will be slow and difficult. Banks and stockbrokers may not actually make any profits out of east European business for a long time, because of the shortage of hard currency in the former communist countries.

Indicators of European financial centres	London	Frankfurt	Paris
Private savings rate (%)	3	13	12
Market capitalisation of domestic companies (DMbn)	1,277	446	395
Market capitalisation as % of GNP	90	20	24
Number of banks; of which foreign	550 320	400 250	400 260
Percentage of workforce in service sector	66.6	53.7	61.3
Salary of bank cashier after 10 years (DM)	46,000	51,000	40,000

Figures are for 1988. Source: Institute for Capital Market Research, Frankfurt

The exception is East Germany, whose incorporation into the West German economy enlarges the market for financial services by 20 per cent at a stroke. But until East German companies are floated on the stockmarket, and East German corporate and private customers become more sophisticated, demand will be slow to grow.

Despite considerable modernisation of the German financial markets and the sharp growth in the stockmarket over the last year or two, Frankfurt still has a reputation as a clubbish centre dominated by the big banks – a place where companies can control who owns their shares, and where the absence of insider trading laws makes some foreign investors uneasy.

None the less, Germany's improvements have definitely narrowed the gap between Frankfurt and Paris, a city which previously seemed to be London's closest challenger on the Continent.

The strong determination of the French government to create a solid foundation for a healthy finance industry, and the eagerness of the French financiers themselves to become international has led to a sharp growth in activity in the Paris market. The modernisation of the stock market, the success of the Matif financial futures market, and the large size of the personal and institutional investment business have all been factors providing growth. Regulation has also been strengthened, and an insider trading law is being proposed.

"The Anglo-Saxon style dominates, but the French are catching up fast," says Mr Jacques Rambosson, head of Barclays Bank's operations in Paris. "The authorities, the players – everyone wants this to happen."

Mr Michel Francois-Poncet, chairman of Paribas, the leading French banking and investment group, also stresses the change in attitudes in the once-chauvinistic French market. "You can't do this by decree. You have got to have internationally-minded people. And I think the French have accepted that you have got to have an international presence."

Ironically, it may have been the fear that foreigners would take over the Paris scene that drove the French to change. A finance ministry official comments: "The French would react badly to foreign domination, which is why we're trying so hard. It's a factor behind modernisation."

London's position has traditionally been so dominant that it can only lose out to all these changes. Recent events, like the local authority swaps fiasco, and the growth of what many people see as an excessively burdensome regulatory machine, have also tarnished its reputation as a clean and flexible place in which to operate.

But London's great strengths remain: the size of its skilled workforce, deeply ingrained international habits, and huge investments that thousands of banks, brokers, investors and insurers have made in people, equipment and goodwill in the City.

The key to its dominance lies in being home to the main international financial markets: the Euromarkets, foreign exchange, fund management. But like migratory birds, these can settle wherever is most congenial, which means that they could leave at any time. In a study last year, the Bank of England said this was unlikely because operators had made such a heavy financial commitment to London, though it warned that there were no grounds for complacency.

The big unknown is the location of a future European central bank, a Eurofed. In Frankfurt, the Germans see this as a potential clincher to their aspiration to become the financial capital of the EC – so much so that they would consider it a major disaster if it was located elsewhere.

The big unknown is the location of a future European central bank, a Eurofed. The Germans see this as a potential clincher to *their aspiration to become the financial capital* of the EC, and would consider it a major disaster if it was located elsewhere

Their claims to it are certainly impressive: an excellent record on monetary policy (symbolised by the solid Bundesbank building on the city's outskirts), the dominance of the Deutsche Mark, and the major role played by German capital. The Bundesbank has also invested heavily in market infrastructure. The central bank of the state of Hesse, where Frankfurt is located, handles 80 per cent of all DM business, and well equipped to take on a major role in the development of European currency systems, says its president Dr Karl Thomas.

Were Eurofed to be in Frankfurt, every important bank in the world would be obliged to open a branch there, which in turn would attract international financial dealing and draw business away from London. Precisely for that reason, though, the UK would fight the choice of Frankfurt every inch of the way.

Frankfurt would also face political obstacles from other EC members who would be anxious about the concentration of financial power in Germany, particularly at a time when reunification will reinforce its economic dominance. By the same token, though, the Germans would resist Eurofed's being put in London *or Paris, which is probably* why it stands a good chance of ending up in a compromise location such as Luxembourg or Amsterdam, both of which have financial centre ambitions of their own.

From a practical point of view, this would not make a big difference, because a Euro-monetary policy would still have to be implemented in the markets, mainly Frankfurt and London. But if it does come about that way, it would reinforce the present evolution of the EC financial structure towards an international centre in London, supported by regional centres on the continent serving the local needs of companies and investors.

Profile: Salomon

The London cavern is the hub for Europe

THEY DO not like to be called a US investment bank at Salomon. They are a global investment bank which happens to be headquartered in New York.

The distinction may seem a little grandiose, but it has a particular relevance to Europe, where Salomon likes to stress its international connections.

Salomon has 920 people in Europe, most of them in London which acts as the hub of the operation. There are also offices in Frankfurt, Zurich, Paris and Madrid, and, soon, in Milan. In a bold step, in April, Salomon became the first Wall Street firm to open an office in East Berlin, truly a sign of the times.

London is home to Salomon's European dealing-room, a cavernous space above Victoria Station through which the bulk of its European trading is conducted. The other offices exist mainly to handle merchant banking business: mergers and acquisitions, and corporate finance.

The centralisation of dealing in London is important, since it provides the liquidity needed for a successful operation. But Salomon prefers to deal with local partners in the individual country markets, because they tend to know the landscape better. "The wishes of our Spanish clients can be very different from those in Germany," says Mr Nick Bedford, the head of European equities.

Salomon's closest partner in Europe is Istituto San Paolo di Torino, one of the leading Italian banks which is in the process of buying a 5 per cent stake in Salomon. Salomon will buy a similar cross-shareholding when San Paolo becomes a publicly quoted company. The two institutions are working on M&A deals and the distribution of securities in Italy, but these are modest beginnings.

The decision to open in East Berlin reflects Salomon's view that East Germany will provide the first business openings in the East, though it regards it as a long-term investment.

Salomon does not break down its earnings from Europe. Mr Jim Massey, the chief executive of Salomon Brothers International, the London company, says: "We make an important contribution on the positive side to the profit and loss account."

Staff have been told the return on equity last year was 20 per cent, which compares with 14.6 per cent for the group as a whole. This is the result of some serious surgery which Salomon applied to its London operation two years ago, to slash staff and costs.

Some parts of the business are still not as profitable as Salomon would like, particularly on the securities side, but Mr Massey says they are "lean". He now hopes to boost the fee-earning side of the business, where several top M&A staff recently left to set up their own firm.

In some ways, Europe provides a bigger challenge to Salomon than the US, because things are changing much faster. "We have to monitor the regulatory environment closely, to anticipate change and be flexible enough to change ourselves. If we have made mistakes, they have been because we have not changed fast enough in the last few years."

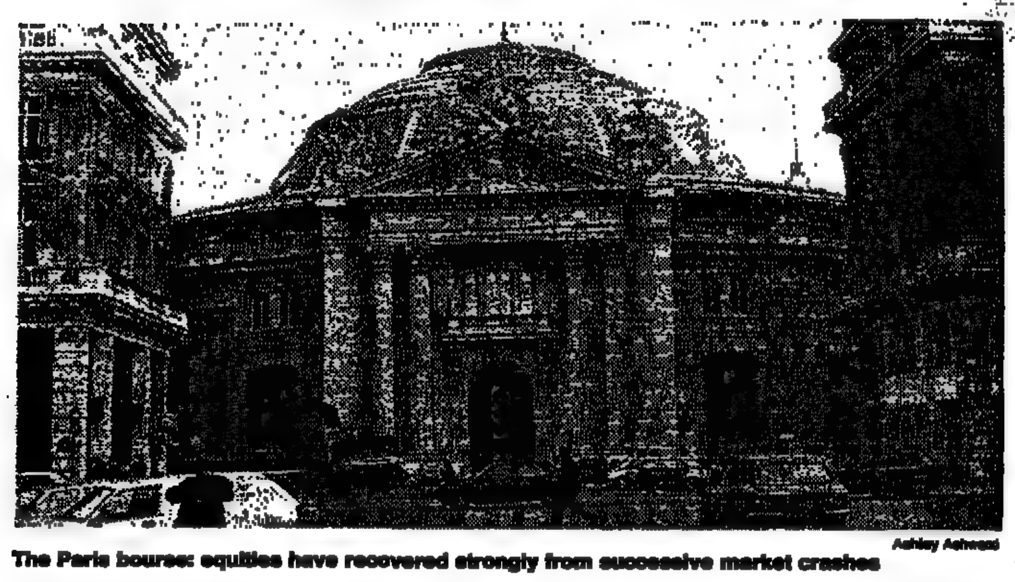
Half of the eight-man European executive committee now consists of British people, and Salomon recently recruited Lord Young, the former trade minister, to join its main board.

David Lascelles

The bulk of European trading is conducted through the huge dealing-room above Victoria Station

The challenge from Paris

New weapons for the global fray



Ashley Ashwood

The Paris bourse: equities have recovered strongly from successive market crashes

WITH THE abolition on January 1 of its last exchange controls, France took the final step in the rapid modernisation of its financial markets.

Among European financial centres, Paris may not yet match London, but as a rival it is gathering stature.

A policy of deregulation, carried through by successive left- and right-wing finance ministers, has provided France with the tools for international financial operations: formal stock, bond and futures markets; liquid interbank markets in short-term instruments; foreign exchange and derivative products; and now free capital movements.

Given the "congenital gradualism" of monetary authorities – as Mr Michel Camdessus, then governor of the Bank of France and now managing director of the International Monetary Fund, was to term it – the pace of change was extraordinarily swift.

At the beginning of the 1980s, 44 per cent of total credit passed through special government-regulated procedures, rather than through the market, and what remained was subject to strict quantitative limits. Bank analysts counted 54 different varieties of subsidised loan, many of them allotted as a monopoly to an individual bank or institution. Some of these subsidies and monopolies survive, but even where they do, they have dwindled to tiny proportions.

Paris's financial markets have been overhauled, and in the process injected with new life. The money market counted FFr1,261bn ($229bn) of outstanding short-term instruments – Treasury bills, certificates of deposit and commercial paper – at the end of April, compared with FFr305bn at the end of 1986. A Bank of France survey last year also showed daily turnover averaging $26bn in the Paris foreign exchange market – less, perhaps, than London, but doubled in the space of three years.

More complex derivative products have also developed: the Bank estimates that there are FFr500bn of foreign exchange options outstanding; for example, FFr5bn a month of caps and floors, with liquidity as good at 10 years as at six months, according to Crédit Lyonnais, the state-owned commercial bank, and a thriving covered warrant market developed principally by Société Générale, the privatised bank.

The bond market, which has become the largest in continental Europe, found a new lease of life, mostly on the back of the Treasury bond sector, which counts FFr10bn a day turnover, but also with parastatal and private-sector issuers. This resurgence has been helped by new procedures, such as monthly Treasury bond auctions, the Saturne cash against delivery settlement system and the highly successful Matif 10-year notional bond futures contract.

Equities, meanwhile, have recovered strongly from successive market crashes. With the SBF index reaching a new record last month, trading volume averaged FFr3bn a day in the first three months of the year.

Here, the institutional change has been even more striking, as the *corbeille*, the old trading, disappeared symbolically, taking with it the old status of *agent de change*, to be replaced by the CAC electronic trading system and stockbrokers for the most part owned or controlled by big banks.

The stock exchange, too, has started up this year a new totally dematerialised settlement system, Relit, which makes many London brokers envious.

The strength of the Paris market draws to a great extent on the strength of its institutions; and here, too, great strides have been made. French banks and insurance companies have been flexing their muscles with a series of foreign acquisitions, backed up by sharply improved profitability.

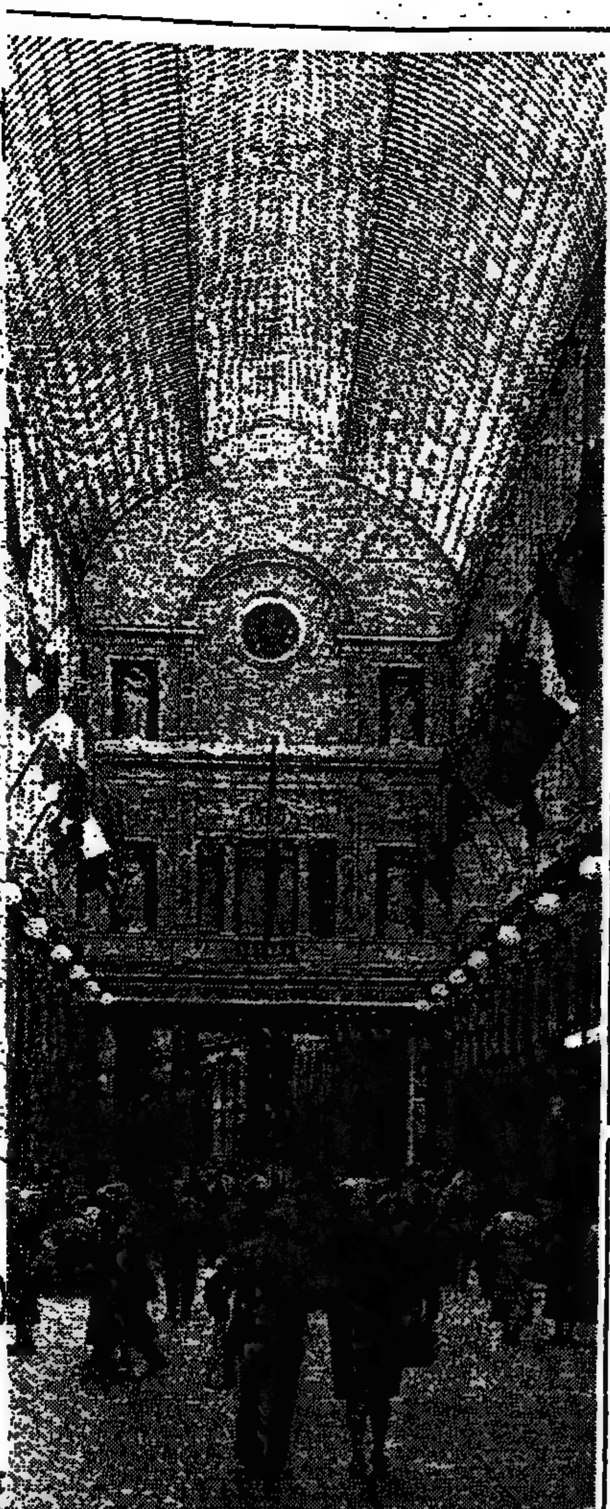
The mutual fund business, meanwhile, is the largest in Europe, with FFr1,339bn under management at the end of March, according to statistics from the Europerformance database, more than half of it in money market funds.

Yet senior French bankers admit that Paris does not offer the same depth of talented and experienced personnel as London and New York – a fact pointed up in the fund management sector, where Société Générale, Indosuez and Crédit Commercial de France have bought UK fund management companies to boost their equity management expertise, but which also affects some other market segments.

But as Mr Philippe Lagayette, deputy governor of the Bank of France, points out, Paris's development as a financial centre has been inextricably linked with the healthy expansion of the French economy.

"Financial globalisation is a fact of life, but that does not break the link between financial activity and the real economy; a financial centre depends on the soundness of its economy and the soundness of the main currency in which business is conducted," Mr Lagayette concluded at a recent conference.

George Graham



RUSSELS, office staff are used to working in at least languages, including English – though the rivalry n Flemish and Francophone puzzles and sometimes es foreign businessmen *Picture: Tony Andrews*

Brussels – capital city

Newcomers help fuel the old euphoria

50s and early 1970s are es referred to in Brus- "the golden years". of US multinational ies set up headquarters Belgian capital.

the next 10 years, for- vestors lost their appe- high public spending es tarnished the coun- age. But Belgium's eco- recovery in the h to 1992 has revived a the old euphoria.

of those now flocking sels – and fuelling the boom – are smaller businesses, in the fields keting, financial ser- egal, public relations ying.

most, access to the ngly powerful institu- the European Commu- notably the European sion – and other inter- organisations is an ge. For some, the game to monitor the moun- legislation being dis- For others, the goal is to influence what it at the end.

the rebirth of the EC nt phenomenon, Brus- tinues to benefit from the advantages that d US multinationals years ago as they eyed opean market. Until kes over, perhaps in ged Europe, the Bel- ital is still the main ls of the continent.

untry's good transport tably wide and solidly ted motorways, pro- y access to London, nsterdam and Frank- rby Antwerp is one of l's biggest ports.

m's industrial work- raised for its skill and ity. In Brussels, office used to working in at ee languages (includ- glish), though the etween Flemish and hone puzzles and es frustrates foreign nen.

debit side, the state unications service is y criticised, as incom- panies wait for new sonal taxes are high ean standards, though rnment has tried to ome of the higher

ment financial incen- ot stand out by Euro- andards, with one t exception. This is led co-ordination cen- h entitles multina- porations, including wned ones, to acquire major tax advantages for activities involving: publicity, supply and collection of information, insurance and reinsurance, scientific research, relations with national and international authorities, centralisation of accounting activities, administration and data-processing, financial transactions and exchange rate cover, plus activities of a preparatory or helpful nature for companies in the group.

Co-ordination centres pay only a flat tax base, determined on a cost-plus basis, provided they meet certain employment conditions. Dividends, interest and royalties paid by the centre are exempt from withholding tax; contributions to capital are exempt from registration duty; and the centre benefits from exemption from rates on the lease value of its property assets. No deduction needs to be retained on the interest paid to the centre by banks and other financial institutions.

The city continues to benefit from many of the advantages that attracted US multinationals 20-to-30 years ago

Government figures last month showed that there are now 213 approved co-ordination centres in Belgium, with 54 planned. The incentives have inspired envious comment from Dutch government officials.

Yet the benefits in the centres were reduced in March, when the Government decided to lower the deemed tax credit from 25 per cent to 10 per cent – the same adjustment that it made to the rate of withholding tax on bonds and bank interest.

Mr Patrick Kelley, a spokesman for the American chamber of commerce in Brussels, says that the effect of this is to reduce the incentives available "under one possible construction for investment in fixed assets".

But he points out that the changes have had no real practical consequences for those multinational groups wanting to set up a financing vehicle or a regional headquarters.

Tim Dickson

The UK: events in east Europe may shift the goalposts, and yet . . .

'You don't walk away from 55m people'

WHY, IF you were a multinational, a Japanese, US or German company looking to expand, would you think of the UK?

It is, after all, an island geographically on the periphery of Europe, and still to be linked physically to the continent. It had also, until the mid-1980s, a particularly bad reputation in many major industries for poor industrial relations and low productivity.

There are two main reasons why you might consider UK as an investment location.

■ In the first place, it has a large population. Ireland has only 3.5m people, but there are nearly 60m in the UK. Any major international concern has to think about the UK.

Motor-cars are a case in point. Britain imports nearly half the cars sold each year. If the major companies do not manufacture in the UK, they more or less have to be involved in either assembly or distribution.

Mr Paul Tosch, chief executive of Vauxhall Motors, which is a subsidiary of the US General Motors, said recently that even in the worst days of the late 1970s and early 1980s, when the UK plant was losing a lot of money, GM did not seriously consider abandoning the UK altogether: "A market of 55m people is not something you just walk away from, whatever the problems."

Vauxhall, at Luton, is now involved in assembly, notably of its successful Cavalier model. The company is now very profitable and regarded as a key component of GM Europe.

Britain, however, apart from being a market in itself, is also a piece of the wider European jigsaw, the EC market of 400m.

With the approach of the internal market in 1992, multinational companies from the US and Japan have looked at Europe more keenly than before. The 1992 label can be misleading. There is no evidence that Europe is about to become any more "fortress Europe" than it is already, or that it will lock out Japanese and US concerns. However, the prospect that it *might* has hastened investment decisions in some cases.

Japan has become the big international investor in the 1980s, partly because the strong yen means to take manufacture and assembly to the markets has become economically sensible. Britain has done particularly well.

There seem to be two basic reasons for this. One is the English language. The Japanese speak few foreign languages. If they have a second language, it is usually English, or just possibly German. The romance languages they are usually not adept at. Therefore, as with the Americans, who preceded them as international investors, the Japanese appear to find that having an English-speaking country as a European headquarters has its advantages.

■ The second major reason for looking to the UK as an investment location is what the Japanese often call "conditions of employment". British labour may not be as cheap as Portuguese or Spanish; but, after the trade-union legislation of recent years and the recession of the early 1980s, which meant unemployment in traditional industries, it is considered more pliant and more disciplined. Foreign companies setting up in Britain have been able to arrive at single-union agreements and no-strike accords.

British labour may not be as cheap as Portuguese or Spanish. But after recent trade-union legislation and the recession of the early 1980s, it is considered more pliant and more disciplined

Japanese concerns looking at Germany or Holland have often found they had to concede more in terms of holidays or working conditions than in the UK.

Once the UK has been chosen, a location within the country will depend on four factors: communications; the availability of labour (especially skilled labour); the cheapness of land or buildings; and, to a decreasing extent, the level of subsidy available.

Of course, it depends on what the company is involved in. There is little point in a stockbroker going to the Highlands; it has to be in London. Similarly, a motor manufacturer would hardly go to Bristol, which has become a white-collar city.

Nissan has settled in the north-east, Toyota in Derbyshire, and Honda in Swindon and Wales. In all these areas, there is access to motorways or airports and there are cheap greenfield sites. In all, there has been high unemployment, with a pool of male workers usually with engineering or other skilled backgrounds.

Significantly Liverpool, which continues to have, rightly or wrongly, a bad industrial relations image, has not landed a major foreign investor in recent years (if one excludes General Motors' decision to manufacture engines at Ellesmere Port).

Certain areas do still offer inducements. There is the Scottish Development Agency, the Welsh Development Agency, the Highlands and Islands Development Board, the Rural Board for Mid-Wales. Usually, however, the assistance offered is to offset the disadvantage of poor location or lack of labour.

Subsidy of any kind, though, is being phased out in the South and increasingly in the North.

Most towns now have to promote themselves on the other factors, notably location and availability of labour. Almost all British towns and cities have economic development units and promotion agencies, aggressively selling themselves to get domestic and foreign investment. They extol the virtues of their industrial estates and business parks.

Many towns in the Midlands, such as Redditch and Telford, have attracted investment, particularly from abroad, because of a history of motor manufacturing in the area. Japanese car components manufacturers have set up in these towns.

There are 34 Japanese concerns in Milton Keynes – partly because of the Milton Keynes Development Corporation, but largely because of good communications to the Midlands and London.

Electronics companies, many of which are US subsidiaries, have set up in the Thames Valley towns of Reading and Slough because of Heathrow Airport.

As towns around London, such as Reading, Slough, Cambridge, and Peterborough fill up, become short of labour and generally more expensive, relocating companies are looking further afield as far as Coventry where B1 office/factory accommodation can be found for £12 a sq ft compared to £20 in Bristol and £27 a sq ft in Slough. Perhaps even Liverpool might have its day.

On the other hand, with the collapse of communism in east Europe, the goalposts on investment may have changed. As one influential economic development officer put it: "If I were a Japanese company, I wouldn't be looking at Britain any more, I'd be looking at Hungary or East Germany."

Stewart Dalby

France

A change of view

OFFICIAL POLICY towards foreign direct investment in France has undergone a complete revolution in the past five or six years.

In the time of President de Gaulle, a quarter of a century ago, it seemed with good reason that the Government's main objective was to keep out foreigners. Industrial xenophobia remained almost as strong even under his more international successors, and when the Socialists came to power, they too seemed determined to erect as many obstacles as possible.

The revolutionary turn towards an entirely opposite approach started in about 1984, when the Socialist Government swung round to a policy of economic liberalism, and it gathered pace as a result of the signing of the Single European Act and the prospect of an entirely liberalised European market.

Today, France has one of the more liberal regimes towards foreign investment. New direct investment by companies from other countries in the European Community has been without restriction for some years; such investment by companies from outside the Community has been unrestricted since the later half of 1988; acquisitions of French companies by non-EC companies are still subject to the approval of the authorities, but the time-limit within which the Government must either object or approve, which had been interminably long, was last year shortened to one month.

The reason for this turnaround is that the current Government has concluded that foreign direct investment is good for France, because it is good for the French economy. And industrial investment is especially welcome, because it is looked to as one way of closing the trade gap.

French industry, it is said, has difficulties on the trade front, because it provides too small a share of the French economy, around 20 per cent of GDP. Other countries with small industrial sectors, such as Britain, Italy and the US, also have trade problems; but those with large industrial sectors, including Germany and Japan, notoriously do not.

The change in French policy has been accompanied by a fairly steady increase in the flow of new industrial investment into France. At the end of the 1970s, foreign investments were creating some 7,000 jobs each year; last year, the figure rose to nearly 14,000. Moreover, the average size of each new project has tended to get bigger – 90 jobs last year, compared with only 60 a few years ago.

In practice, the French have found that foreign companies tend to be above average in dynamism and performance, and therefore have been making an increasingly positive contribution to the French economy. From 1975 to 1987, the share of foreign companies in French industrial employment rose from just under 18 per cent to 21.6 per cent. But their share of French industrial turnover rose from 21.6 to nearly 27 per cent; and their share in exports (for which no figure is available for 1975) amounted in 1987 to just under 30 per cent.

American companies are by far the biggest and oldest national group of investors in France, and their performance appears to be particularly strong. A recent Ministry study shows that between 1978 and 1988 their share of French industrial value-added rose from 27.5 to 30 per cent, and their share of exports from 26.5 to 34.5 per cent.

West Germany is the second most important source of industrial investment in France, followed by Switzerland and the UK, which are in turn followed by the Benelux countries. Japan last year came fourth as a source of direct foreign investment, behind America, Germany and Britain; even if Japanese companies take seriously the new policy of openness of the French Government, it will take them a while to catch up with their US and German competitors.

In terms of industrial sectors, the American companies are specialised in high and medium technology, and are particularly strong in capitals goods equipment, including handling equipment and data processing, and in some chemical industries, such as base chemicals, pharmaceuticals and rubber.

West German companies are more heavily represented in such consumer goods sectors as shoes and pharmaceuticals than in such intermediate goods as base chemicals and rubber or in mechanical engineering. British industrial companies in France are heavily concentrated in various parts of the chemicals industry.

Areas of France which have been most successful in attracting foreign companies are those immediately round Paris in the Ile-de-France, where foreign companies account for 24 per cent of industrial jobs, significantly above the national average; and contingent regions in Haute Normandie, Picardie (where the foreign share of industrial jobs is over 30 per cent), Champagne and Bourgogne (27 per cent).

Alsace remains one of the favourite regions for foreign investors, no doubt because of its geographical proximity to West Germany and the rest of the European market. But the traditional industrial areas like Nord and Lorraine have remained successful contenders for new foreign investment, while the Centre region has improved its rating as a location for foreign investors.

By contrast, the regions in the south, south-west and west have been much less successful in attracting foreign direct investment. In Brittany at last count foreign companies provided only 9 per cent of industrial employment, and in Corsica the figure was under 5 per cent.

In contrast with the bad old days, France actively solicits foreign direct investment, which it aims to attract by active canvassing in other industrial countries. The main channel for the canvassing is Datar, the regional development agency, which has four offices in the US, two in Japan, and one each in Britain, Germany, Switzerland and Italy. Naturally, a large part of Datar's objective is regional development; and last year it was comparatively successful, since it managed to attract 60 per cent of the new investment to the less-favoured regions in the west and south-west.

In these development areas, new investment can attract FFr35,000 for each new job created, up to a maximum of 17 per cent of the total fixed assets; or in the most deprived areas, such as Brittany, the Vosges or the Massif Central, the incentive can rise to FFr50,000 per job, up to 25 per cent of fixed assets.

In addition, local authorities in development areas can remit the business payroll tax for up to five years; while in the three new Enterprise Zones of Dunkerque on the Channel, and La Ciotat and La Seyne on the Mediterranean, which started in 1987, companies are exonerated from corporation tax for 10 years.

Datar finds that, when terms are being negotiated, prospective investors suggest that the financial incentives are all that matter; but afterwards, companies admit that they look at a whole range of factors. So Datar argues that the most valuable incentive it provides is as an enabling agency, prospecting for sites and labour and housing, etc.

But government officials also claim that French financial incentives are perfectly transparent and above board and legal in the Community context; not, they add, like some countries in the EC, such as Britain, Italy and even Germany, which give too much. What is needed, they say, is for a harmonisation of EC investment incentives.

Ian Davidson

Productivity compared: mid-1988

	Labour costs index	Value of production per hour of work	Value of production per wage unit	Wage costs per unit of value of production
US	129	134	134	96
Switzerland	107	104	97	103
West Germany	100	100	100	100
Sweden	95	94	88	114
Netherlands	93	92	95	101
Belgium	89	86	97	103
France	79	96	120	83
Italy	77	72	94	107
Austria	75	75	99	101
UK	68	64	99	105
Spain	55	52	95	106

Source: Dresdner Bank's analysis of the cost of labour and productivity in industry, in the main industrialised countries (West Germany = 100)

Profile

Talking business in the Alps

THERE PROBABLY isn't a single town in the French Alps that does not claim it is at the crossroads of Europe.

Mayors, from cities like Lyon to small towns like Albertville, in the department of Savoie, are busy setting up technopoles and business parks, in an attempt to attract investment.

But Archamps, a small commune in Haute-Savoie on the border with Switzerland, renowned for little except its role during the second world war as a jumping-off point for Jews trying to escape over the frontier into neutral Switzerland, has a better claim than many to the title of the crossroads of Europe.

The commune is situated at the crossroads of two motorways. One motorway heads north, round Geneva and Lausanne to Germany; and in the other direction, south down the Rhône valley to Marseilles and Spain. The other stretches east to the Mont Blanc tunnel, the Aosta valley and Turin; and west to Lyon, Paris and Brussels.

As might be expected, next to the motorway intersection at Archamps is an international business park, where 60,000 square metres of new buildings are in the process of being constructed on a 40-hectare site. The plans include a 36,000sq m world trade centre.

Mr Michel Glever, marketing manager for the park, is enthusiastic about the prospects for the park. Besides its situation next to the motorway, the site is also only 7km from Geneva in Switzerland. A by-pass around Geneva, expected to be completed in 1993, should provide 15 minutes access to the airport there.

Its location in the department of Haute-Savoie provides advantages and disadvantages, admits Mr Glever. He says that the department is known for its snow and poor travelling conditions during winter; but he stresses that communications in the department are excellent, and that Archamps is less than an hour from well-known ski stations such as Flaine and La Clusaz. That, together with the possibility of sailing on Lake Geneva and mountain-walking during the summer, should make recruitment easy. The department is the second most popular tourist destination in France after Paris.

Mr Glever also points to the infrastructure that is being put into the park. France Télécom and the International Business Park are installing a double fibre-optic network system into all of the buildings on the site. A research centre is also being set up.

Another advantage of locating in the French Alps is the low labour cost. Dresdner Bank estimates that wage expenses per unit of value of production in France are among the lowest in Europe. A number of companies from outside the EC, including Japan, the US and Switzerland, have already located at Archamps. They include, says Mr Glever, Japan Engineering Computer, Unident of Switzerland and DEC, the US computer manufacturer.

Paul Abrahams

West Germany

Sound but expensive

THE ATTRACTIONS of West Germany for foreign investors are easy enough to name. So are the drawbacks.

On the plus side, Germany is a large and prosperous market with a well educated population. Its workers are among the best trained in the world, capable of handling the most modern equipment, and turning out products with a worldwide reputation for quality.

As consumers, the Germans demand the best and expect to pay for it. These are some of the reasons why direct foreign investment in Germany has grown to around DM100bn ($60bn).

In addition, the country is about to unite economically, a development which is expected to propel the economy along even faster and give new opportunities to domestic and foreign investors. Turning round East Germany's economy and rebuilding its infrastructure will be an immense and challenging task, posing huge problems and risks for its citizens and those who employ them.

At this stage, now that the initial euphoria has died down, it is far too early to tell how the rebuilding of East German infrastructure and industry will proceed and who will benefit. Even West German companies have tempered their initial eagerness over prospects in the East with a more realistic dose of caution as the true, grim state of East Germany's economy has become clear.

Thus, for foreign companies, it is still West Germany that draws their attention as a potential site for investment. Since political union is expected to follow not too long after monetary and economic union, it will not matter in the end which part of the country companies choose for their operations.

One reason given for the decision of Britain's Rolls-Royce to participate with BMW in an aero-engine venture near Frankfurt was the development of Germany into an even bigger economic force with the opening up of East Germany.

The decision by Ford of the US, to switch its $380.5m investment in engine production from South Wales to Cologne, was a clear vote for West German quality and reliability

So what about the problems of investing in Germany? For one thing, it is not cheap. Labour costs are among the world's highest, and include a wide range of fringe and social benefits, for which employers have to foot the bill. Germans also take long holidays, and are used to much better working conditions that in many other countries. And the co-determination law entitles many of them to a powerful say in how companies are run.

Moreover, they are tending to work shorter hours. Now that the 35-hour week is coming into the engineering and other industries, employers are striving to offset the higher costs through greater working flexibility and more shifts. Some employers complain that competitors in Japan have the advantage of far more working hours over a period of several years in which to improve and develop their products, a contrast heard especially often in the car industry.

Even so, German companies seem more than capable of holding their own in most industrial sectors. The decision by Ford of the US, to switch its $380.5m investment in engine production from South Wales to Cologne, was a clear vote for West German quality and reliability. Ford said it could not rely on supplies from British plants.

Ford also, presumably, had the exciting new prospects in eastern Europe in its sights. These will obviously be a powerful attraction for foreigners. A strong base in Germany will, for many companies, be an essential part of their strategy in meeting the opportunities of both the EC internal market and the slowly and awkwardly emerging economies in eastern Europe.

Andrew Fisher

Frankfurt faces an exciting challenge, but . . .

Old ways may endure

INNATE conservatism does not always pay off, and the tradition-laden German financial community will have to change if it is to meet the audacious challenge issued recently by the mayor of Frankfurt.

"What New York is to the United States," he said hopefully, "Frankfurt will be for... Europe."

The noisiness with which *Finanzplatz Deutschland* (Germany as a financial centre) is being promoted is a recent phenomenon. In contrast, for instance, to the Bank of England, which has always taken its promotional duties on behalf of the City of London seriously, the Bundesbank has traditionally seen its role as stopping at defence of the Deutsche Mark. And the West German government has, in the past, been positively obstructive – notably in the catastrophic muddle over withholding tax just over a year ago.

Now much more attuned to how far Germany has slipped behind in the race to build an internationally pre-eminent financial centre, the authorities are not necessarily pushing at an open door. Mr. Karl Otto Pöhl, president of the Bundesbank, has complained: "From the discussions about what must be changed in the Bundesrepublik... I sometimes get the impression that, with us, the question is phrased the opposite way around: How can the status quo be maintained, at any price?"

Germany is a net importer of financial services. The power of its financial sector is absurdly emasculated, compared with the strength of the real economy. The stockmarket capitalisation of the western world's third largest economy amounts to only 5 per cent of the global total. Frankfurt's share of bank cross-border lending, at 4 per cent, is lower than that of Paris (5.5 per cent) let alone Tokyo (14 per cent) or London (16 per cent). A significant proportion of the trading of D-Mark denominated debt and equity securities takes place not in Germany but in London.

Paradoxically, Germany has many of the prerequisites to be Europe's leading financial centre. The D-Mark is the most important international reserve currency after the dollar. Post-war stability, with inflation only once above 6 per cent, is a model for every other European country. And its population is sitting on the continent's largest pool of savings.

Meanwhile, changes in the political and economic landscape virtually demand the rapid advancement of the German financial sector – while also posing the danger that old structures and habits will be reinforced rather than replaced.

Stockmarket capitalisation of the west's third largest economy is only 5 per cent of the global total

European union could be turned to Germany's advantage. The Bundesbank has hinted that it hopes to win the siting of the proposed Eurofed on German, not British, soil. Yet the prospect of a single market in goods and services has unleashed fierce competition between European centres, and Germany will not as a matter of course pull ahead of the pack.

Also, the rebuilding of eastern Europe, not just East Germany, will enhance the role of the D-mark, and place considerable demands on the country as international capital flows are redirected towards the East. A lot of money will need to be raised, and it would happen more easily were, say, the domestic bond market a more modern place. At the same time, the inevitable upheavals, particularly the tensions in East Germany as the D-Mark and the social market economy take root, could lead to a retrenchment, and a renewed reliance on the safety of existing structures.

Some changes are already in train. The biggest boost to Frankfurt recently has been the burst of energy in the stockmarket since November. German equities have leapt to the forefront of international portfolio managers' minds. Consequently, a number of firms, notably Barclays de Zoete Wedd, a major British broker, plan to set up a Frankfurt operation.

There are also signs that some of the antiquated structures that have indirectly driven business abroad may be phased out.

The days of the regional stock exchanges are numbered, at least for mainline stocks. IBIS, a centralised electronic quote system that is to be upgraded to a trading capability, by the end of the year, is even being promoted in Europe as a potential competitor to Seaq in London.

The Deutsche Terminbörse, a computerised derivatives exchange, opened in January to trade 14 blue-chip equity options, and will be expanded to include futures from September.

Three government or government agency issues recently by-passed the consortium that has previously monopolised federal debt issues – an experiment with an auction system similar to overseas issuing practices.

The turnover tax, which has smothered the development of staple domestic money market instruments such as certificates of deposit and commercial paper, is to be abolished at the beginning of next year.

However, winning back busi-

Continued on facing page

Profile: North Rhine-Westphalia

Changes in the air

REIMUT JOCHIMSEN, the Economics Minister of North Rhine-Westphalia, is not just talking loquacious politician's language when he expresses the hope of "a golden decade" for the sprawling state, which has struggled hard to shed its old heavy-industrial image.

The state still has its coal and steel industries, and the Ruhr area is still an important part of West Germany's economy. But coal and steel have undergone immense and painful changes in recent years, as has the engineering sector which is now far more high technology-oriented after the restructuring efforts of companies like Thyssen, Mannesmann, and Klöckner-Humboldt-Deutz.

NRW, governed by the Social Democrats, who are in opposition in Bonn, has also made its environmental problems work to its own advantage.

"We have over three times the population density of the other big West German states," says Mr Jochimsen. "So the environmental difficulties were dreadful. But now, we have more than 1,000 companies that make a living from environmental technology."

The state has striven to get away from the old "workshop" image, he adds. The Ruhr is not the whole of NRW, which spreads as far eastwards as Aachen, as far to the south as Bonn, the Federal capital, and north-east beyond the small towns of Gütersloh (headquarters of the big Bertelsmann media concern) and Bielefeld.

Apart from such obvious foreign investors as Ford, in Cologne, and the concentration of Japanese trading and financial interests in Düsseldorf, NRW has been successful in attracting a wide variety of non-German companies.

As the European Community moves towards the internal market in 1993, companies from Norway, Sweden and Finland are now setting up in NRW so as to have a more central European base.

Other big German concerns also have significant operations in the state, the biggest industries of which are chemicals (Bayer is based there) and engineering. Siemens, the electrical group which has its headquarters in Munich in the south, is heavily represented, and has now taken over ailing Nixdorf Computer, based in Paderborn, in eastern NRW. Opel, the car company owned by General Motors of the US and based near Frankfurt, also has a plant in Bochum, right in the Ruhr.

Apart from areas like Aachen, now undergoing a drastic reduction in its coal-mining, NRW does not offer any particular incentives to new investors. "Scotland has much more favourable terms," says Mr Jochimsen, pointing out that NRW puts more store by its highly-developed scientific, research, educational, and communications infrastructure. "We are not trying to compete on cost but on the potential for innovation."

With around 17m people, NRW has as many inhabitants as East Germany, with which it has strong trade links. The state is the fourth largest in West Germany, has the biggest economy, and is the largest exporter. Within a radius of 500km, the range of a day's truck journey, more than half the purchasing power of the EC can be reached. Foreign investments in NRW total some DM25bn ($15bn), around a quarter of the figure for the whole country.

With the West German economy on a strong growth path and about to receive an extra stimulus from East Germany, Mr Jochimsen sees a bright future for NRW. It is this which prompts him to talk of "a golden decade". The state's economy is advancing strongly, with all sectors benefiting.

The shift away from heavy industry has not been without hardship, especially in steel. Job losses have been considerable and unemployment is still a problem, as elsewhere in Germany. But new jobs have also been created. More than 60,000 new companies have been set up in the last three years, including over 12,000 in the Ruhr, the main towns of which are Duisburg, Essen, and Dortmund.

However strenuous the efforts of the NRW Government in promoting and co-ordinating the various restructuring and investment projects around the state, little could have been achieved without a commitment to change by companies.

Now that the conservative-liberal Bonn Government has stopped turning a blind eye to NRW's problems, the state has a chance to rival the rich states of Bavaria and Baden-Württemberg in the south.

Andrew Fisher

Late-starting Italy has some catching up to do, as . . .

Political doubts deter Japanese

PACE of foreign stment in Italy has so ened over the past three that the media and some cians fear that key sectors e economy may be falling r foreign control.

wever, most indices sug- hat foreign penetration of n manufacturing industry ervices has a long way to efore it begins to match in other leading Euro- countries.

e most reliable informa- is incomplete. But snap- of the situation in 1987, subsequent more detailed toring of mergers and sitions, suggest that for- investment is being deter- l by the same imperatives ewhere in Europe.

One of these is the process of global restructuring in sectors such as telecommunications, heavy plant engineering and pharmaceuticals; as companies seek the appropriate dimensions, specialisations and markets which can sustain rising research-and-development and capital-investment costs. Another is the opening of the European Community's internal market, which has triggered a similar search in financial services and most industrial sectors for larger dimensions and competitive strengthening through cross-border investments.

Italy has started further behind, for a host of historical, cultural and structural factors. It has been a relatively late developer as an industrial nation which, in the fascist years, sought autarky rather than interdependence. While the industrial north was, and is, a sympathetic host to foreign investors, the centre and south was more culturally closed until the last 30 years. Moreover, the absence of efficient financial markets and financial services has, in many cases, impeded foreign penetration.

According to data compiled by R&P Ricerche, for Business International, only 1,200 Italian manufacturing companies were either controlled by multinational investors or numbered them among their minority shareholders at the end of 1987. These were operating 1,656 production plants, employing 455,000 people with a turnover of L92,000bn ($75bn).

This added up to a significantly smaller presence than in other leading industrial economies. In Italy, foreign investors accounted for 11.8 per cent of the industrial workforce, compared with the UK (14.8 per cent), West Germany (15.8) and France (18.6). Even larger differences apply when it comes to employment overseas by Italian companies, when measured as a proportion of the domestic workforce: 8.3 per cent, compared with the UK (22.9 per cent) France (19.7) and West Germany (18.1).

Again using the employment measure, the sectors that have fallen under greatest external control are electrical engineering and plant and mechanical engineering. Both accounted for 10.4 per cent of "foreign" employment. They were followed by electronics and telecommunications (10.21 per cent), pharmaceuticals (8.72) and "white goods" (7.65).

But in 1987 no foreign investment had found its way into artificial fibres manufacturing; while Italian aerospace accounted for only 0.08 per cent of employment under foreign control.

US companies lead the way among investors in Italy, accounting for 30 per cent (360) of the companies with foreign participation in their shareholdings, 34 per cent of employment in these companies and 42.5 per cent of this category's total turnover. West Germany came next at the end of 1987, with 14 per cent of employment, followed by France with 12.9 per cent, Switzerland with 12.7 per cent and the UK with 11.1 per cent.

In the last three years, Italian governments have greatly lamented their apparent failure to win their share of Japan's growing overseas investment. Indeed, Japanese companies have shown minimal interest in one of Europe's most booming economies; partly, they say, because of language problems, but more because of what they perceive to be the instabilities of Italian politics and a business culture that is not particularly welcoming. The most recent figures for the Japanese fiscal year 1988-89 did show, however, a virtual doubling of investment in Italy, raising the number of companies fully or partially controlled by Japan from 12 to 27 and the value of investment from $59m to $108m.

This static picture of foreign investment can be built upon by statistics on mergers and acquisitions. Monitoring of M&A by KPMG Peat Marwick indicates that the number of investments in Italian companies by foreign capital leapt from 68 in 1987 to 177 last year.

Twenty-two were in the engineering and electrical engineering sectors, followed by 20 in food, 18 in chemicals, 13 in financial services, 12 in banking and 9 in insurance. In engineering, food, chemicals and insurance, more than half the operations involved acquisitions of full control; while in banking and financial services, the proportions were below 30 per cent.

John Wyles

Profile: Lombardy — 'which doesn't have to offer incentives'

radition and economic strength

ITALY'S richest region, inting for about a third of country's gross national ict, it is no surprise that bardy has also attracted foreign investment.

cise figures are hard to lish, because Lombardy ntrates on promoting its exports rather than raging others to move in. ice the lack of an office or on responsible for inward tment at either regional rovincial level, notes Mr tantino Corbari, of the camere Lombardia, the n-based organisation groups all Lombardy's bers of commerce.

ere are no generous tment and relocation s, or tax-breaks, which ommon in the less devel- regions of southern Italy. bardy doesn't have to incentives," says Mr Clezy, director of the -based British Chamber mmerce for Italy.

the absence of financial ement has not deterred of the biggest companies rope from choosing Lom- as their home. The rea- are the region's economic th — providing a ready t on the doorstep — and lustrial tradition.

he past, skilled labour n industrial mentality not hard to find. More- Lombardy benefits from cation at the northern of Italy, conveniently to major European markets like Switzerland, France and West Germany.

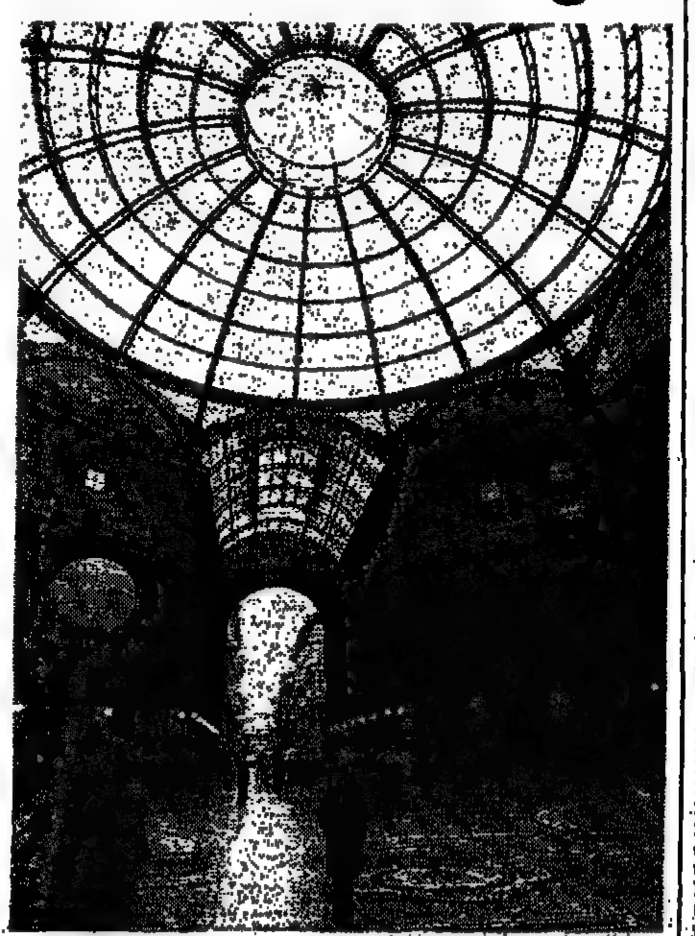
Communications are good, with three major airports — two of them in Milan. And road and rail links are also of a high order, especially the motorway through the San Gottard and San Bernardino tunnels in Switzerland to the north.

Not only Milan, but also the string of smaller cities that surround it, offer the financial services and lifestyles that are magnets for foreign companies.

Yet Lombardy's industrial strength is arguably its greatest problem. Skilled staff are increasingly hard to find. In the wealthy province of Bergamo, 30 miles east of Milan, there is virtually full employment, so that the small-to-medium businesses that are northern Italy's economic backbone find qualified labour scarce. Moreover, labour costs are high. Milan is among the dearest cities in western Europe, and appreciably more expensive than Rome.

So, irrespective of the attractions of investing in Lombardy, foreign companies know that they have to pay the price. Geography and infrastructural factors mean that many service and distributive industries need be in Lombardy. But newer industrial ventures often prefer the financial parks available elsewhere.

Haig Simonian



Milan is among the dearest cities in western Europe

Ford and GM point the way in Portugal

A low-cost location

CAN A small country some distance from western Europe's major business and financial centres realistically compete as an investment location for non-European companies. Portugal's experience suggests that it can — given certain conditions.

Foreign investment in Portugal has roughly doubled each year for the past four years, to reach a record Es353bn ($2.4bn) in 1989. Another big rise is expected this year, with several large projects under discussion with major groups from the US, Japan and Korea as well as from Europe.

The fact that Portugal started from a less-developed base has spurred investors, who see the country as offering new opportunities as it strives to modernise and to catch up with its European partners. The lure of the "southern belt" may have abated in response to developments in eastern Europe, but, for some of the world's multinationals, Portugal remains an attractive location as a low-cost producer with a peaceful industrial climate, good financial incentives and a pleasant environment. A Government committed to the free market, and eager to attract foreign investment, provides further encouragement.

Though most investment has come from the EC (about 65 per cent last year), and has gone into the financial, services, tourist and real-estate sectors, a large proportion has gone into manufacturing. Among these were large investments by Ford and General Motors last year, secured in the face of strong competition from other European sites.

Ford moved first, announcing in July an Es22.3bn investment for a new plant in Setubal, to produce car audio equipment — the group's first audio component plant in Europe. Mr John Tome, Ford Lusitana managing director, says the plant will produce about 2m car radios and CD players a year, almost all of which — save a few thousand for the domestic market — will be exported to other Ford plants in Europe.

In December, GM's electronics division, Delco Remy, announced an Es9.4bn investment in a plant, also in Setubal, to produce 500,000 electronics ignition systems units a year. As with Ford, GM's production will be mainly for export.

The two projects will create about 2,250 new jobs and, as their production will be exported, they will help to reduce Portugal's troublesome trade deficit. Ford, for example, has committed itself to produce a net foreign exchange balance (value of exports minus the value of imported materials and equipment) of Es35bn for the period 1992-95.

The Government hopes that these companies' example will encourage others to chose Portugal. Once GM and Ford had decided they wanted to establish new plants in the EC, a combination of financial and other factors came into play.

Mr Dan Roberts, who led GM's study and negotiating teams, says: "First there was the availability of technologies and skills; second, the success of other GM operations in Portugal; third, the long-term competitive position." The last was a crucial factor, at least as important as the Government's provision of financial incentives.

"The incentives go away, but you have to be competitive in the long run," Mr Roberts says. Low labour costs, good productivity, and a virtually strike-free environment in the private sector gave Portugal an edge over possible locations in eight other countries.

Industrial wages in Portugal are among the lowest in Europe, and are between half and two thirds of those in neighbouring Spain. This makes manufacturing in Portugal, to sell in the much larger and easily accessible Spanish market, a worthwhile option, says another foreign executive.

This does not appear to have been a consideration for GM or Ford, but securing free access to the whole of the EC was. "We see 1992 not just as opening new markets but possibly [resulting] in the erection of new barriers," Mr Roberts says. Portugal's campaign to be a "gateway" to Europe may be paying dividends.

Financial incentives were also important, as without them neither project would have gone to Portugal. Ford received grants representing 52 per cent, and GM about 45 per cent of the total investment. Portugal is short of skilled engineers and technicians, and training grants were essential for both companies. At least one fifth of the grants were designated for training.

Portugal's position on the south-western edge of Europe, often perceived in Lisbon as a drawback — especially with the emerging competition from eastern Europe — acted in its favour. "Southern Europe is where there is a lot going on in the motor industry. It's where there is the greatest growth potential. Fears about eastern Europe are understandable, but one thing is the promise of the east and another is what is actually happening in the south. Companies tend to invest where there is growth and a sense of dynamism," Mr Tome says.

But in the end, an investment decision depends on more than one consideration. Mr Tome says: "There's never really one deciding factor. [Portugal] is a good example of a combination of factors, not least a good chemistry between negotiators on both sides."

Patrick Blum

The big challenge ahead of Frankfurt

Continued from facing page

ness is very different from capturing it initially. For example, Germany's slowness has allowed D-Mark derivative products to get a firm hold in London, and to a lesser extent Paris, and their presence has in turn attracted a good deal of the associated cash market.

Moreover, the German financial marketplace has never been innovative. Its universal banks might argue that their financial muscle obviates the need for new ideas, and that many instruments are invented by investment houses that are not allowed to extend credit. They could also argue, justifiably, that many of these innovations have proved a disaster. However, the diversity of the London or New York markets is an attribute, the importance of which is hard to deny.

Nor will the developing East German market provide a catalyst for new and sophisticated financial products — what will be required is the simplest banking instruments. Despite official denials, the fragility of the emerging system could indirectly hold up liberalisation, as a mood of renewed conservatism sets in.

Katharine Campbell

In Spain, says **Peter Bruce**, Madrid has been the main target

Easy — if you use experts

FOREIGN investment has been the biggest single factor in Spain's economic boom in the last four years. Companies have flooded in since it joined the European Community in 1986.

Manufacturers have made cheap acquisitions; Spanish consumers have been eager to buy most of what has been put in front of them; and foreign financial services companies have alighted upon a populace desperate to be treated as clients, not victims of their domestic banks or insurers.

Spain in 1986 was being run text-book fashion by bright young people with US business degrees. About Pta6,000bn ($58bn) in cash was swashing about the economy untaxed, and laws governing takeovers were extremely helpful.

One popular ruse, used during the sale of Antibioticos to Montedison or Chorizos Revilla to Unilever, has been to make a rights issue so large that it dwarfs the current shareholding. The buyer then acquires the rights, while the seller holds on to the now-impotent original shares. Capital gains tax is only payable, though, upon sale of the original shares, which the sensible Spaniards normally frames and hangs on an office wall.

That route has been partly closed, though it is still open to companies trying to enter the stockmarket for the first time. Nevertheless, as the consumer boom in Spain fades a little, it is worth asking whether the Spaniards who have sold out to foreigners may not have got the botter of the deals.

The Government has also been accommodating. Not investment or acquisition – from the sale of the country's two main vehicle producers Seat and the truck-maker Endesa to German buyers to the small takeover by a British company last year of a heat treatment operation near Madrid – has met arguments of national interest.

Buying a Spanish company has been made simpler by the arrival of US and British investment bankers. They charge as much as they do in their home countries, but can ease fears that the cheap fruit canner with the 20 per cent market share in the fastest-growing region is not itself a lemon

But the pattern has been broken this year, with signs that the Industry Ministry is unhappy about the prospect of British Steel taking over an important Spanish producer of structural steels, Aristrain. The deal, if it ever existed, is unlikely to come off.

Most foreign investment has been targeted on Madrid, mainly in financial services; or Barcelona, where industry has tended to settle. The Government, though, has been trying hard to encourage investors to move to areas of high unemployment or those hit by its industrial reconstruction closures scheme in the mid-1980s. Regions like Andalucia, Galicia, the Basque Country and Asturias all offer, with central government assistance, aid packages to investors.

GE Plastics, for example, is building a $2.5bn plant near the naval port of Cartagena, after having been provided with free land by the regional government and a promise that Madrid and local government will make up a third of every dollar the company spends.

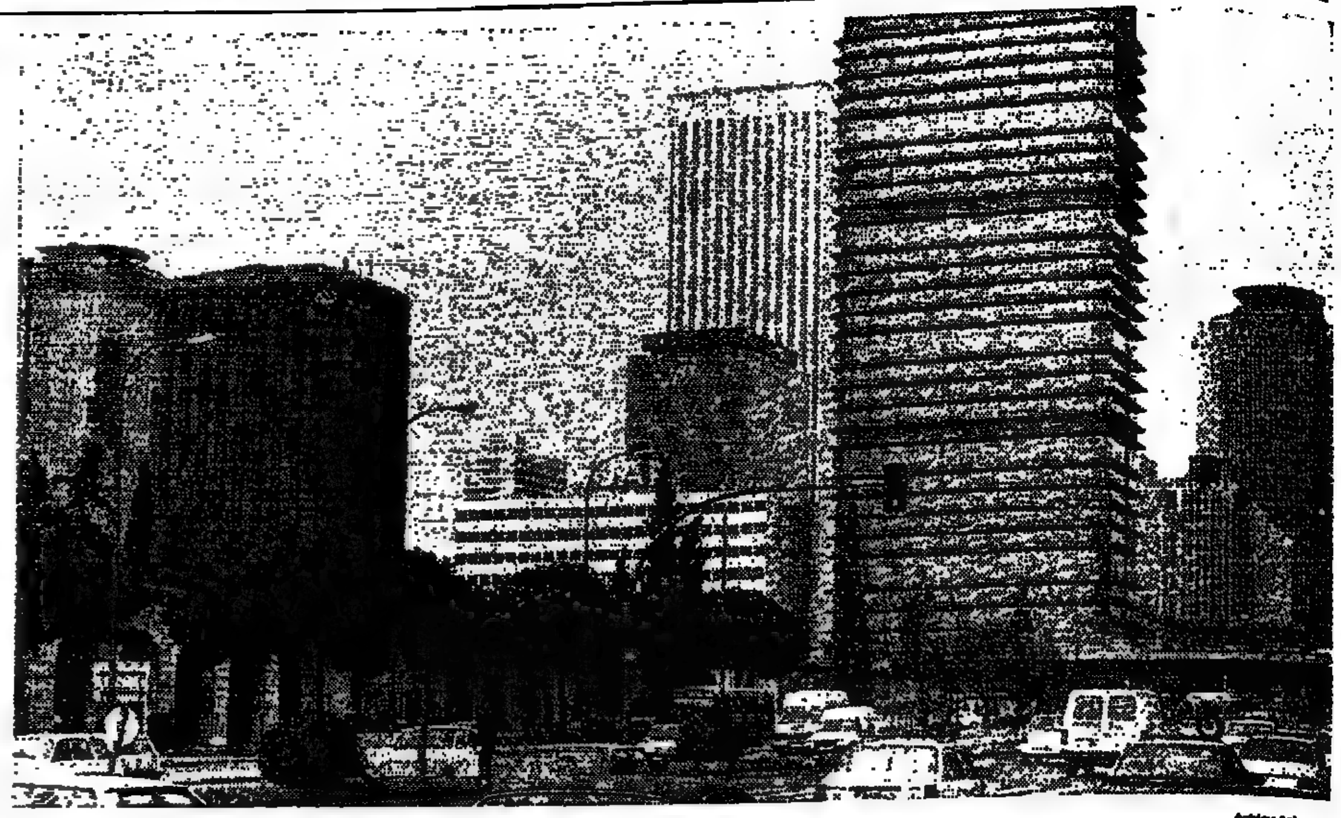
In Asturias, Du Pont, the chemicals group, has just announced plans to build a $2bn plant. Ford chose to place its new $200m car electronics plant near the Andalucian port of Cadiz, after withdrawing the project from Dundee in Scotland when it failed to agree terms with trades unions.

In the Basque Country, Rolls-Royce has been helped to take a holding in a group planning to build engines for the European Fighter Aircraft. In Galicia, the Italian glass group SIV has been persuaded to build a new float glass plant with massive help from Madrid.

Such projects divert attention from the hundreds of smaller entrants into Spain, most of which are not offered free land or 33 per cent subsidies. Yet they come – and, unless the investor is reckless and buys an unaudited company with large hidden tax obligations, few regret it.

"The Spanish are not great planners," says the chief of a British insurer that set up in Madrid two years ago, "but they are very creative. They like a challenge and they are very achievement-orientated."

But Spain is extremely expensive. Office space in Madrid can cost up to $60 a square metre; a business lunch for two in a reasonable Madrid restaurant, $200; a three-bedroom apartment in a quiet part of the capital, at least $2,000 a month. The telephone service is bad, and many businesses in Madrid are still working with portable phones months after arriving. These problems can be solved, however, through the right contacts.



Ashley Ashwood

The new high-rise commercial district of Madrid: office space in the capital can cost up to $60 a square metre

Actually buying a Spanish company has been made much simpler by the arrival of US and British investment bankers. They charge as much as they do in their home countries, but can normally ease fears that the amazingly cheap fruit canner with the 20 per cent market share in the fastest-growing region in the country is not itself a lemon.

"In all the deals we do, tax liability is often a major factor for foreign investors," says an American banker with long experience of Spain. "It is not usually a deal breaker, but people often don't anticipate just how big that number can be."

So far, the compensation has been good prices. Most of the available acquisitions are family companies, and, says the banker, "because there is so little information available about their companies, they are not in a position to auction them. So deals are not that competitive."

But even the price picture may be changing. Some bankers in Madrid believe that companies bought in the first wave of foreign takeovers since 1986 may soon be coming up for sale again, and that this time prices will have risen.

Provided investors have sound legal advice, one of the big eight accountancy firms and efficient secretaries, Spain is an easy place in which to invest and do business.

Land deal revives a benighted landscape

Murcia, a sprawling place, between the regions of Andalucia and Valencia, was chosen by General Electric as the site for a $2bn plastics plant

A SMALL province anywhere in Europe is liable to feel intimidated, as it bids against dozens of others for a factory being promised by one of the world's industrial giants. Has the company ever heard of you?

That was the problem facing Hilario Alarcon two years ago, as General Electric considered 19 sites in Spain for a $2bn plastics plant that would, over 15 years, create almost 2,000 direct jobs. For Mr Alarcon and his colleagues, such an opportunity rarely comes more than once.

□

Mr Alarcon is managing director of the Instituto de Fomento de la Region de Murcia, the industrial development agency of one of Spain's least appreciated but most attractive Mediterranean provinces. A sprawling rich-brown place studded with striking green places, Murcia lies between the regions of Andalucia and Valencia, happy to belong to neither.

But it has also been a poor place. The people are traditionally farmers or have worked in food-processing. Today, much of the region is farmed under plastic, providing Europe with year-round fresh fruits. The people are richer and the region is growing.

□

Mario Armero, legal counsel to GE Plastics in Spain and the son of a lawyer with vast experience of helping foreign investors, remembers immediately liking the team from Murcia. "At the end of the day," he says, "these deals are not just about money. The people at the development agency were incredibly efficient and capable."

Murcia got the GE deal. The regional government found the company a piece of land near the ancient port city of Cartagena, and went through the torturous task of buying its 600 hectares from 110 owners.

Anyone who has bought property in Spain will appreciate what that implies. A little later, when GE said it wanted to increase the investment from $1.6bn to $2.5bn, the patient Murcianas went out and bought the Americans 750ha close by. In addition, Madrid and Murcia had promised GE subsidies worth 33 per cent of their investment.

□

Mr Alarcon does not mind being left with an empty 600ha on his hands. "The Levant is growing quickly, and this land is going to be important and useful one day."

The outlay by the local government has probably been worth it. The plant, once it is running, will transform the industrial landscape around Cartagena, largely abandoned by business. An old refinery and some fertiliser plants in the area are bad polluters, and the Government hopes that GE's environmental impact study and an environmental responsibility study (an assessment of conditions on the ground, before the plant is built) will set a new ecological tone for the region.

Cartagena, Spain's big naval base, is a huge natural and deep harbour. Its people are friendly and smart, and property relatively cheap. Mr Alarcon regrets that he cannot offer all potential investors free land, but Murcia's other advantages, including good road and air links and some excellent beaches, may be some consolation to new arrivals.

Peter Bruce

FINANCIAL TIMES

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FINANCIAL TIMES SURVEY

NEW SOUTH WALES

New South Wales has a dominant role in the political, intellectual, cultural and business life of Australia. But the State Government, which has a bold programme of reforms, is running into problems, reports **Kevin Brown**

Now the toll begins to tell

LABOR PARTY had a le message for the voters ustralia's recent federal ion: "Don't let the Liberals Australia what Greiner lone to New South Wales." as a potent slogan which ed Mr Bob Hawke, the r Prime Minister, win an ecedented fourth term in al government.

contrast, Mr Nick Greileader of the governing ral/National Party coaliin NSW, is beginning to like a one-term Premier. ader of the only conservastate government in Aus-, Mr Greiner was bound a major target for Labor's ny and effective advertis-But it has been his misfor-to have embarked on a amme of reform at state just as Australia appears slipping into a recession ed by the Federal Govern-to curb an overheated my.

original Greiner plan aged cuts in the public es to balance the budget, ined with efficient man-ent and micro-economic n which would allow a icant give-away to the before the next election, n 1992. But the national omic slowdown has ed the state's tax reve-to the point where the Government's whole gy looks like coming ck, and thoughts of a ection tax cut may have abandoned.

Greiner legitimately s much of the pain on Federal Government, has cut transfers to the y A$760m in real terms 1988 while pursuing a nterest rate policy which nock A$580m off stamp evenues this year.

an also claim that his mic efficiency pro-e has been hampered by tion in the Upper House State Parliament, which vernment does not con-Nevertheless, the signs t the voters are unlikely ympathetic, especially if ecession deepens, as likely. In spite of the ms, the Greiner pro-e has made the State nment a leader of l conservative opinion, h it remains out of step e more cautious federal Liberal Party. Its failure would have enormous implications for Australia, because it would demonstrate the truth of Labor's claim that radical reform can only be imposed in this bureaucratic and corporatist country from the political left. It is that perception which has underwritten seven years of Labor government at federal level, and put Labor into power in five of Australia's six states. If Mr Greiner fails, many Australians will conclude that Labor is now the natural party of government, and that could put the conservative parties into the wilderness for a generation.

What happens in New South Wales matters more than what happens in other states because of its domination of the political, intellectual, cultural and business life of the country. The state is home to 5.7m people – more than a third of the population – and accounts for more than a third of the country's gross domestic product (GDP) and manufacturing output.

Sydney, the state capital, is a colourful, sprawling, brawling metropolis of 3.6m people – the biggest city in Australia – which is the headquarters for most of the top 100 companies and home to most of the foreign companies operating in Australia. Mr Greiner says he came into office in 1988 determined to restore sound financial management to the state after what he saw as 12 years of Labor mismanagement, and to reduce both the role of government in the state economy, and the expectations of government among voters.

"It is a revolution by any standards – a systemic change in the role of government and the expectations that people have of it," he says. "But it has been politically difficult. The norm for success at state level is to do nothing with a fair amount of style, or to encourage development at any price. We have tried to do something else."

The Greiner revolution started with dramatic changes in the bureaucracy as the state became one of the first public employers in the world to put senior public servants on performance-related contracts which removed their security of tenure.

Financial controls have also been shaken up by a resource allocation and control programme which has identified the exact location and value of state assets, with some surprising results – such as the Education Department's discovery that it owned 300 more properties than it thought.

However, it is the reform of the publicly-owned rail, bus and port industries which has provoked most opposition, especially among the trade unions, to whom the Greiner Government is anathema.

According to Mr Bruce Baird, the Transport Minister, the depth of inefficiency in the public services was breathtaking - exemplified by the State Rail Authority station at Narrandera which employed 11 staff to drive trains which no longer existed, three to drive the train crews to and from the non-existent trains, six to sell a total of five tickets a day to passengers, and six more to relieve the others.

The Greiner prescription has been a thorough shake-up of the management of all three organisations, together with clear commercial objectives, sales of under-used or under-performing assets, and job cuts to reduce the wages bill.

The Government has been less successful, however, with the other main plank of its smaller-government policy – corporatisation, or arms-length management, and privatisation. The model here is the privatisation programmes pursued successfully by the governments of New Zealand and the UK, but NSW does not even look like approaching the scale of disposals in those countries. So far, the only sales have been an investment company, the Government Printing Office, a brickworks and some abattoirs. There are also plans to sell half the coal mines operated by the state-owned Electricity Commission.

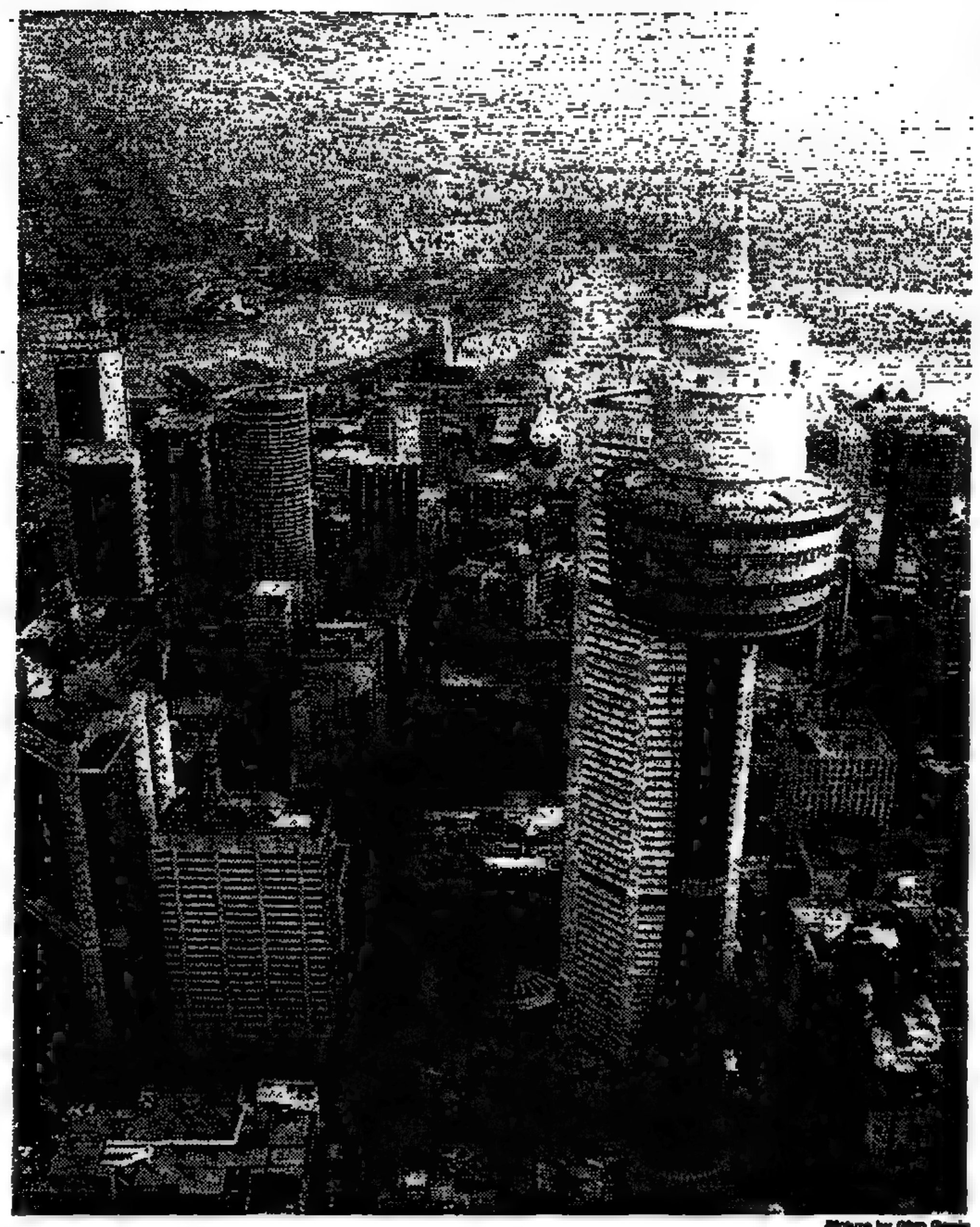
Progress on corporatisation has been even slower – only the Grain Handling Corporation and the State Bank have so far been re-organised, although there are plans for the Government Insurance Office and the Electricity Commission to follow shortly.

Despite its difficulties, the Government has not run out of ideas. There are plans for private toll roads to improve the relatively poor road infrastructure, major bills for the reform of industrial relations and education are currently before parliament, and Mr Greiner has secured agreement in the Upper House for a redistribution which will reduce the number of MPs by 10 in the name of fairer representation – Labor calls it 'a gerrymander.'

But the toll is beginning to tell, and Labor leader Mr Bob Carr is beginning to make progress with allegations of financial mismanagement of projects worth A$257m, including a A$60m scheme to stage the next Australian motorcycle grand prix in Sydney.

Mr Carr has also found an audience for claims that the premier has allowed total state debts to rise by A$6bn to A$52bn, in spite of a promise to cut the total. The Government points to other indicators, such as a fall in the debt as a percentage of gross state product from 20.2 per cent in 1988 to 16.5 per cent last year.

Nevertheless, Mr Greiner admits that the political costs of his reform programme have been heavy, and that he probably under-estimated them. As its political problems deepen, his Government's boast that NSW would be one of the Asia/Pacific region's "Tiger Economies" of the 1990s, begins to sound a little hollow.



Picture by Glyn Genin

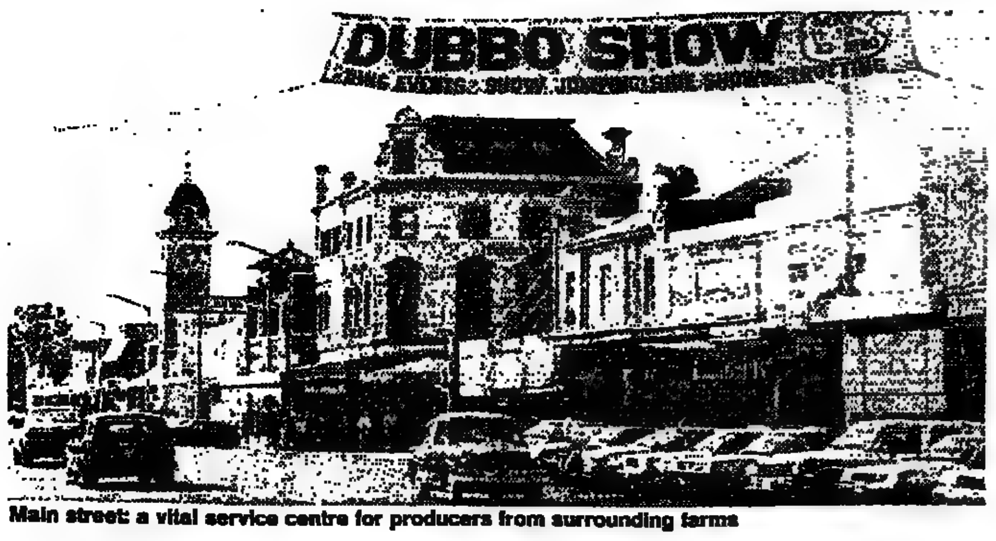
Sydney: the state capital and Australia's biggest city, has a population of 3.6m

IN THIS SURVEY

Nick Greiner: he blames the Federal Government

Bob Hawke, the Labor Prime Minister.

☐ *Editorial production: Michael Wiltshire*
☐ *Pictures by Glyn Genin and Ray Bashford*



Main street: a vital service centre for producers from surrounding farms

Dubbo, a prospering regional city on the move

At home on the plains

THE SENSE of confidence that pervades Dubbo was not reflected on the front page of the Daily Liberal, the city's newspaper.

"Anger over police cuts," "Violent taxi rank 'must go,'" "Businessman outrage" and "Where is the law and order now?" were the headlines dominating the morning newspaper last month after the state government announced reductions in city's police force.

Foreign visitors reading the headlines could have believed they were in the crime capital of Australia, rather than in an urban dot on the vast Western Plains of New South Wales.

In this politically-conservative city with a population of 30,000, the reduction by 16 in the size of the city's police force was seen by citizens as irresponsible while Dubbo tries to deal with social problems which have accompanied a decade of rapid expansion.

However, evidence of prosperity built on 172 years of wheat and sheep growing in the 200,000km² of surrounding Orana (Aboriginal for tranquility) farmland is more evident than any urban unrest.

The wide main street, typical of other towns in the area, such as Gilgandra, Gulgong and Coonamble, is a centre for leading national retailers, banks and merchants. The rapidly growing residential area is becoming the site for the Australian urban dream – a brick veneer house on a quarter acre block of land.

The population has trebled in the last 30 years and Mr Tom Slattery, the city's mayor, believes that the figure will reach 40,000 by the end of the century.

His confidence is principally based on the city's unrivalled geographic position which allows it to lay claim to the title of capital of inland NSW.

Located 414km by road west of Sydney, Dubbo has always been the centre of the state's mixed wheat and sheep growing area.

This combination, which thrives on an average annual rainfall of 23 inches, and forms the rump that the state's agricultural output, insures the city against the vagaries of weather and international commodity markets.

Farmers from the large catchment area use Dubbo for the bulk of their administrative, banking and domestic supply needs.

The worst floods in the area coupled with depressed wheat prices are concerning producers, but the resilient spirit of the Australian farmer flows in the city.

The encouragement of light industry through decentralisation from Sydney has caused much of the recent expansion.

This process is still in a formative stage, but it is likely to continue with Mr Gerry Peacocke, the local MP and the state Minister for Business and Consumer Affairs, being a strong advocate for relocation in the area.

Mr Slattery argues that Dubbo's location also places it in a pivotal position for state and national road and rail links.

The most direct route between Melbourne and Brisbane passes through Dubbo while the routes west from Sydney to Dubbo links up with the expanses of the state's western areas.

The establishment of the state's biggest export orientated and fully integrated sheep slaughter yards is a prime example of how the local government intends to develop businesses which dovetail with the area's rural base.

There are also plans to build wool scouring and processing operations to add value to the local product before export.

The open range Western Plains Zoo houses 2,000 animals without bars and cages and is one of the area's main tourist attractions.

But the fight to develop Dubbo will continue to collide with the Australian aversion to moving inland to permanently settle.

"Why live in a place where the temperature can reach 45 degrees and there is no beach to cool off," would be a typical question from a Sydney-sider being offered Dubbo as an alternative place to live.

Mr Max Walters, a prominent local citizen, is in no doubt about his reply.

"This is the real Australia where people are friendlier and there's lots happening."

Ray Bashford

An over-supply of office space in Sydney causes concern

Property market is cautious

SYDNEY'S youthful skyline is undergoing its most dramatic period of change.

High-rise building sites dot the centre of the city as leading Australian and international construction companies build for the anticipated commercial and retail needs for the city's centre into the next century.

It is an extention of a robust 10 years of development when Australia's financial and commercial capital has been transformed. Development has fanned out to include many of the Sydney's urban growth areas.

Report by RAY BASHFORD

But the CBD has attracted most of the investment and remains the most accurate gauge of the overall health of the property sector.

However, a sense of caution about the market's short-term prospects is developing in the offices of many of the nation's leading property groups. An over-supply of prime city office space in the short-term forms the basis of the hesitation.

The collapse of Hooker Corporation and the demise of several other smaller construction companies has also had an unsettling effect.

Many of the sites nearing completion were conceived during the heady days of 1988 when the city's commercial construction industry was experiencing one of its most rapid periods of growth.

Sydney led a nationwide boom in the commercial office market in the four years to June last year. This was reflected in three-fold growth to A$53bn in total funds held in the investment property.

This rise has been connected with evidence of a steep appreciation in property values as well as the entry of a new field of overseas investors, particularly those from Asia.

The Federal Government's decision to liberalise regulations governing banks and accountancy and legal firms was a key factor in stimulating this surge in investment.

Local and international banks, which were successful in winning licences after banging at the government's door for years, were suddenly demanding office space in an already crowded market.

Leading legal and accountancy firms, which consolidated their positions through a rash of mergers, also sought showpiece office blocks in prestigious locations in the city. And finally, in the aftermath of the 1987 stockmarket crash, investors also took the view that property offered a relatively safe home for funds, especially as domestic interest rates eased. Insurance companies, superannuation funds and property trusts were and remain the major domestic investors. Their portfolios spread across a broad range of urban as well as central city property.

The development of Sydney as a regional financial centre, serving Asia and the Pacific region, has fostered a sharp increase in the level of foreign investment in the CBD.

Traditionally, most foreign investment has come from Britain as the result of historic ties with Australia. Relationships with local companies have provided UK companies with watching posts over the Australian property market.

In the last five year's, however, the UK's dominant foreign investing role has eased as capital from Japan, Hong Kong and Singapore has led a strong Asian push into the market. According to the Sydney office of Jones Lang Wootton, the international property consultants, acquisitions by foreign investors in Australia in 1985 comprised only 11 per cent, or A$150m, of the total net property additions. However, their net purchases have grown at an annual average rate of 75 per cent to A$1.4bn in 1989.

This figure covers all states and includes holiday resort investment. But a large portion of the foreign funds have poured into Sydney's CBD.

Japanese money is funding several of the major city developments, including the Bond Centre, conceived as a corporate showpiece for entrepreneur Mr Alan Bond.

Mr Bond has been forced to sell the site, however, due to financial difficulties within his international brewing and property group.

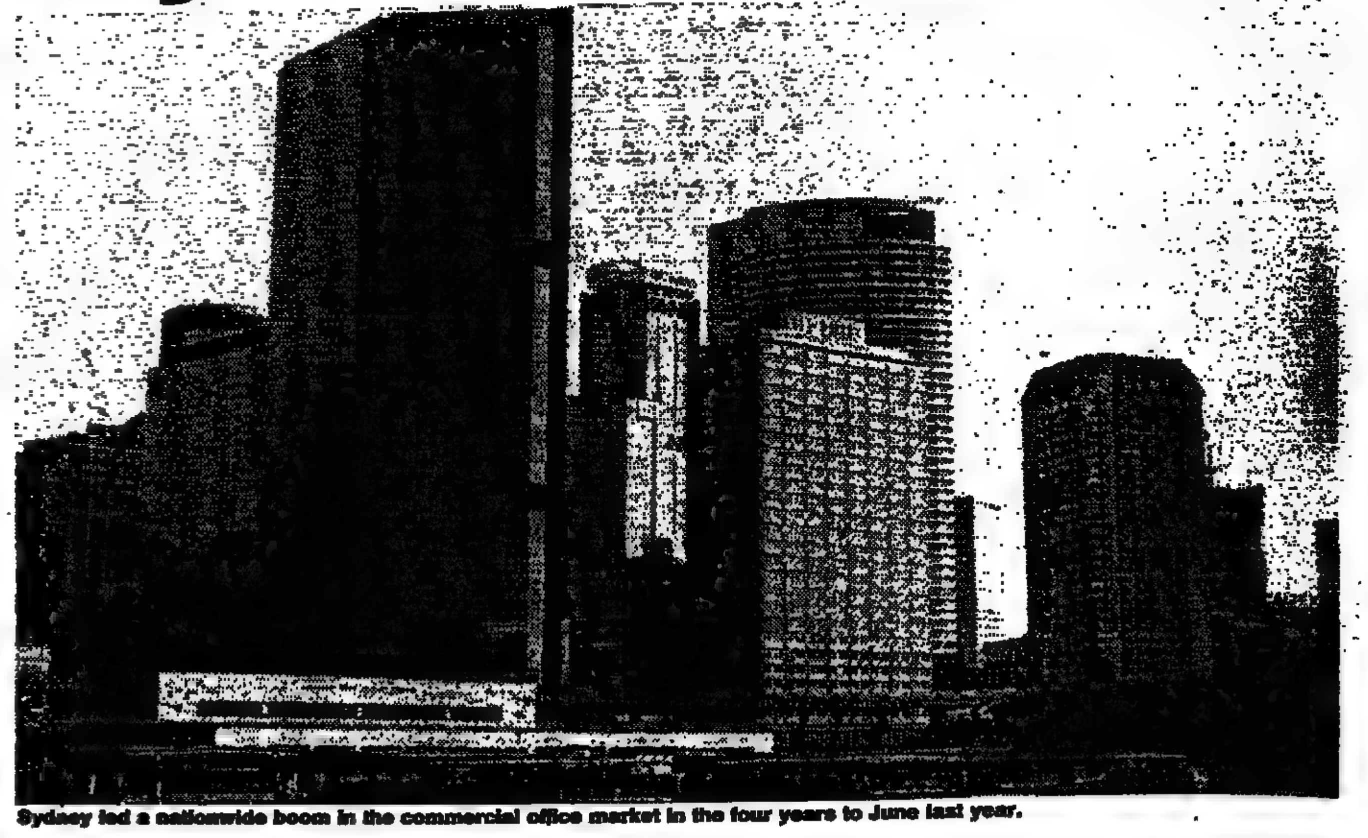
With such powerful international backing, office space is coming on the market at such a rate that there are doubts about the capacity of business to satisfy supply, especially as the Australian economy faces mounting difficulties. Another 540,000 sq metres of space is due for completion within the next two years.

A recent research paper from Jones Lang Wootton says: "A realistic appraisal of the dynamics of the office space market suggests that the market is likely to slow as the availability of office space increases resulting in a likely decline in both rental and price growth."

The report concluded: "A threat of over-building exists and concern regarding the future health of Australia's office space markets is warranted."

However, amid this caution there are clear indications that the market has a stronger long-term future.

The negotiation of leases in several large buildings due for completion in two to three years is a promising indicator. Many observers have subsequently concluded that the present slowdown is simply a consolidation phase after unsustainable growth during the previous five years.



Sydney led a nationwide boom in the commercial office market in the four years to June last year.

INSURANCE

Merger plan blocked

THE AUSTRALIAN insurance industry received a shock last month when the Federal Government blocked a proposed merger which would have led to the biggest upheaval in the financial services sector in decades.

In April, two of the country's biggest institutions, the ANZ banking group and the National Mutual Life Association insurance conglomerate, announced a A$3.4bn (£1.7bn) merger plan which threatened to begin a new era of financial restructuring in the small but competitive market.

The ANZ-National Mutual deal, to create a financial giant with assets of more than A$130bn, changed the whole debate on financial deregulation debate in Australia.

Previously, the debate was focused on separate control in the banking and insurance industries. The big issue used to be whether any of the country's four leading banks should be allowed to merge. Suddenly the debate spread across the whole financial services spectrum.

The ideas behind the ANZ-National Mutual plan were not new. The traditional lines between financial services have become blurring since the Australian Government embarked on financial deregulation in the early 1980s.

The "one-stop money shop" concept has been in vogue for almost a decade, with the insurance and banking groups crossing into each others' territories, and both rushing into the fast-growing area of funds management.

The ANZ-National Mutual plan merely crystallised the issues for public debate.

Separate to the question of financial domination, perhaps the leading issue should be the safety of investor funds.

Superannuation was the main attraction of National Mutual for the ANZ.

The ANZ sees this as the investment growth engine of the next decade and beyond, in some measure replacing the traditional savings role of bank deposits.

The Federal Government's policy to make superannuation virtually compulsory for most Australians underpinned this.

By flagging its interest in jumping on the superannuation bandwagon, the ANZ has raised thorny questions of just what those funds should be used for.

Should people's retirement savings be effectively used to increase bank profits?

Does this increase the risks for both superannuation and life policy holders and bank depositors?

The Government's slightly confused answer seems to be "yes, but not in this case."

Announcing the Federal Government block on the ANZ-National Mutual proposal, Mr Paul Keating, the Treasurer, said no other mergers involving any of Australia's top four banks and two leading life assurance associations would be allowed.

Mr Keating said the decision was based on the need to maintain competition in the sector – that the merger would have removed National Mutual from the insurance sector as an independent player.

At the same time, the Treasurer gave banks the go-ahead to enter the insurance market and vice versa, provided they do so either by expanding their businesses, or by acquiring smaller companies.

A new concession was given to insurance companies: permission to own banks, provided they have enough financial strength, widespread shareholdings and would accept Reserve Bank supervision.

The ruling prompted National Mutual to proceed with plans to demutualise by issuing shares to allow it to take full control of the National Mutual Royal Bank, perviously jointly-owned with the Royal Bank of Canada.

Attention has shifted to whether the ANZ and National Mutual will find another way of co-operating, short of a full merger, as well as to possible takeovers in the second tier of Australian banking, such as the Advance Australia Bank.

Even if high-flying mergers don't occur, the issues will not go away because Westpac is now a sizeable force in life insurance and funds management and the AMP owns half a bank.

Another important issue raised by the big merger proposal is the general health of the Australian life insurance sector.

Suggestions that part of the National Mutual's motivation for merging was liquidity problems have been strongly denied.

Commentators have suggested that strong growth in capital-guaranteed products – where the insurance company guarantees a final payout given certain premiums – has strained insurance balance sheets.

The proposition was given further credence when, just weeks after the ANZ-National Mutual announcement, the MLC and Capita, two large life insurance groups announced a so-called merger.

It was clearly more of a takeover by the MLC which will absorb Capita, virtually without payment. Capita was forced into the deal because an unsuccessful expansion push over the past half decade had left its reserves at dangerously low levels.

It is notable that, even with more than A$3bn in reserves, the National Mutual decided to throw its lot in with the ANZ.

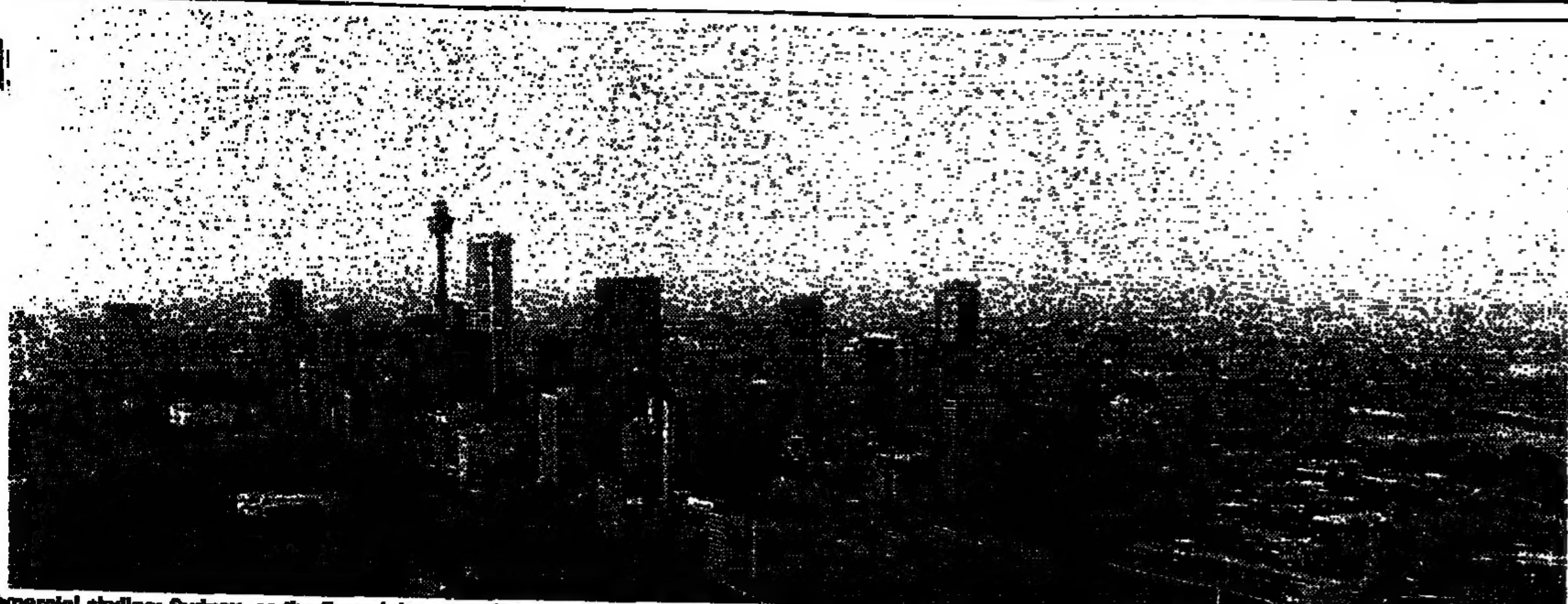
In comparison, Capita's reserves stood at a mere A$200m, so its reasons for seeking a big brother were clearer.

In general insurance, the number of players has been dwindling for decades, but a handful of publicly-listed companies, including FAI Insurances, QBE Insurance Group and the NRMA, have a high profile.

The floods and cyclones of recent years in Australia were a multiple blow for FAI, which has been one of the country's leading entrepreneurial share market investors. It suffered extensive losses with the troubled Bond group and in the 1987 share market crash.

But QBE, an associate of Burns Philp, the industrial giant, has been one of the few buoyant stocks in a sick Australian share market.

Bruce Jacques



mercial skyline: Sydney, as the financial centre of Australia, has attracted the offices of an in inmcreasing number of foreign banks

BANKING

Debt write-offs bite

CH half-year results ted by three of Australia's ng banks – Westpac, nal Australia and ANZ – clearly shown that the e has gone out of banking s and harder times are for the 1990s.

chickens are coming to roost after half a e of risky lending to Aus corporate high-fliers.

n the Sydney-based West and Melbourne-based nal disclosed serious debt offs, increasing a prob hat began to surface two ago.

banks' exposure to the of entrepreneurs Mr Alan Mr Christopher Skase r Abe Goldberg, has been ibed as the Australian ient of overseas banks' World debt crisis.

comparison may be apt g by the the latest West d National results.

tpac's bad debt write-offs than doubled to A$105m half, while provisions for se A$441m.

a A$546m total almost ed Westpac's declared m net earnings for the But even this earnings was dubious.

tpac only saved itself a huge earnings dip by g back a A$325m abnor tem relating to its staff nnuation fund. Without the bank would have ed a 58 per cent earnings o less than A$250m.

result has heightened t concerns about the y of Westpac's loan book, gh it should be noted that the bank's total against profit for bad represented just 0.79 per average loans.

National Bank's perfor was slightly better, ing a 5.3 per cent net gs lift to A$440m. But nd doubtful debt provi g increased by more than cent to almost A$250m. tness in the Australian ny were illustrates by a f almost 30 per cent in anking earnings.

National's investment in ritish-based Yorkshire gave the overall bottom strong result.

's interim profits fell by r cent after tax to 3m, largely because of rease in bad debts from m to A$224.5m.

Will Bailey, ANZ's chief ive, went to some s to minimise the exposure to large Aus corporate debtors, espe he entrepreneurs. ough there was a differ degree, results from all anks point to a worry nd in Australian bank nalysts believe that the y as a whole is sitting re than A$6bn in loans ay never be recovered.

three poor results, and a announcement soon d from the Common the second-owned urth-largest bank, have the spotlight away from sion and takeovers s consolidation and bal heet examination.

Federal Government vir quashed the four big hopes of merging some o, but that did not stop ustry heading off on a ck when the ANZ pro A$3.4bn merger with l Mutual Life Associa ustralia's second largest urance group.

proposal came as a sur because the large banks en busy buying cross-shareholdings in each other in apparent preparation for mergers. One of Australia's top corporate raiders, Mr John Spalvins, had also positioned himself as one of the country's largest banking shareholders, probably to grab a pivotal role in the expected mergers.

The proposal sparked speculation about possible mergers with the other leading insurance groups, including the AMP Society and the MLC.

One of the problems for the banks is that their dominant position in the Australian savings and investment scene has been eroded by other products, mainly superannuation.

With government help, superannuation is replacing bank deposits and becoming the country's leading area of savings. That was the clearest rationale for the ANZ-National Mutual link.

The proposed merger posed some difficult regulatory problems. Many analysts believed it would have led to the end of the rather artificial system in Australia which split the administration of insurance and banking operations.

In the end, however, Mr Paul Keating, the federal Treasurer, took the view that market efficiency was less important than competition – a force which has been difficult to foster in the small Australian market, in spite of the Government's deregulatory thrust.

Mr Keating blocked the merger late last month on the grounds that the removal of National Mutual's independence was not in the public interest. The Treasurer also ruled out any talks of merger talks between the big four banks and two leading insurance giants, National Mutual and AMP. But in a ruling seen as inconsistent by some analysts, he said there was no objection to banks entering the insurance market and to insurance companies moving into banking, provided their business was large enough or that it involved acquiring small companies.

Mr Keating's action surprised the financial community, and angered the ANZ and National Mutual, which promptly decided to go ahead with plans to raise new capital by demutualising.

The decision allowed National Mutual to acquire from ANZ the National Mutual Royal Bank – established by National Mutual and the Royal Bank of Canada in the early 1980s, and probably the most successful of the new banks established after deregulation.

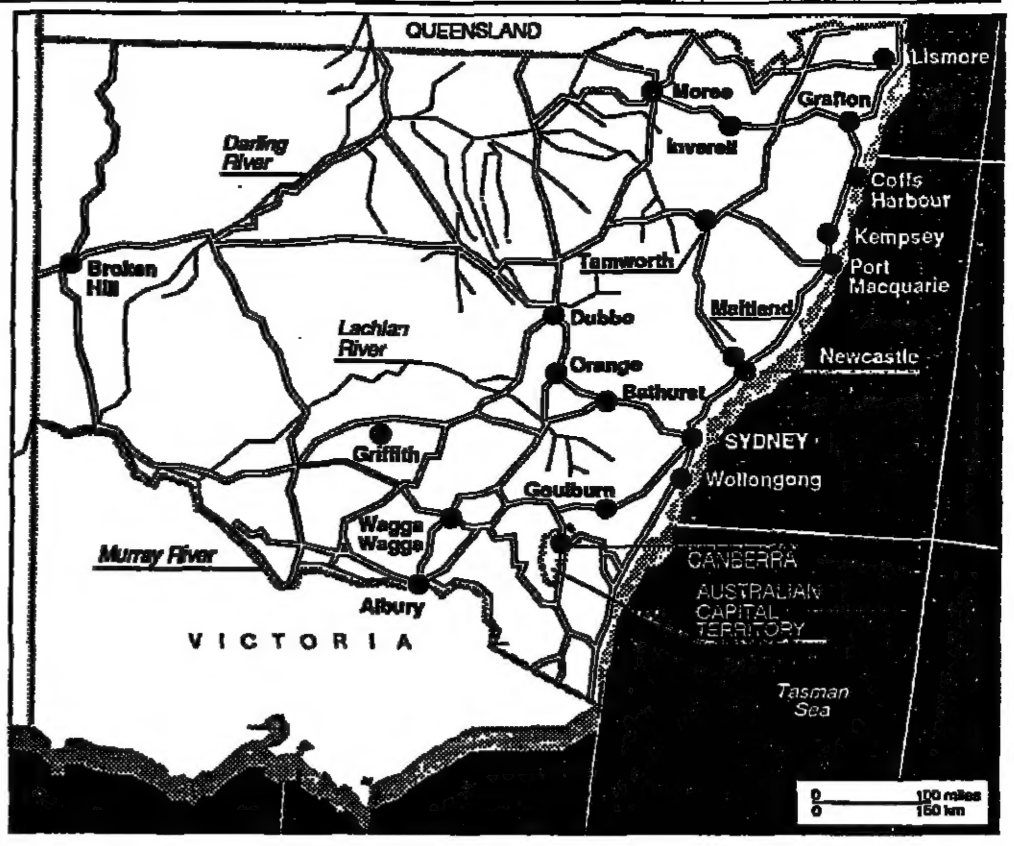
For most other foreign banks, their Australian adventure has been a sea of red ink, with Citibank, BT and Chase AMP emerging as the most likely long-term survivors.

Local bank domination is a big problem.

The four leading banks control more than 65 per cent of the total Australian banking market, and the established state government-owned banks control almost another 17 per cent. That leaves a miserable meagre 17 per cent of an already small market available for the foreigners.

Financial losses may force local banks to shed some of their high-risk business, but less attractive customers may not enhance the prospects of foreign banks.

Bruce Jacques



KEY FACTS

■ AREA:

Australia	7,682,300 sq km
NSW	801,428.5 sq km

■ POPULATION:

Australia	16,881,200
NSW	5,761,900
Sydney	3,623,550
Newcastle	425,610
Wollongong	238,690
State capital	Sydney
State Government	Liberal/National Party (Conservative) Coalition.

■ TRADE:

NSW Imports: A$20.9bn (1988/89)
NSW exports: A$10.9bn (1988/89)
Main exports: (1988/89): Coal (A$1.8bn)
Wool (A$633m)
Meat (A$451m)
Wheat (A$305m)
Iron & Steel (A$244m)

■ GDP:

Australia	A$366.315bn (1989/90 est.)
NSW	A$106bn

■ REAL GDP GROWTH:

Australia 2.8 % (1989/90 est);
+1.8 % (March quarter).
NSW (2.8 per cent (1989/90 est)

■ UNEMPLOYMENT:

Australia	6.2 % (April, seasonally adjusted)
NSW	6.2 % (April, seasonally adjusted)
SYDNEY	5.2 % (April, seasonally adjusted)

■ INFLATION:

Australia	8.6 per cent

■ CURRENCY:

A$1 = US$0.75; £0.46;
DM 1.28; Yen 119

Sources: Government estimates; Reserve Bank of Australia.

Sydney has overtaken Melbourne as the financial capital of Australia

A gateway to Asia and the Pacific

WHISPER it in Victoria, but after nearly two centuries of competition, Sydney is generally considered the financial capital of Australia.

The evidence was produced in a report recently presented by Professor Bob Fagan of Macquarie University to the Australia and New Zealand Association for the Advancement of Science (ANZAAS).

He found that 60 of Australia's top 100 companies were based in Sydney at the end of last year, compared with just 29 in Melbourne. The two cities were equal as recently as 1984, when Sydney had 45 head offices and Melbourne 42.

Professor Fagan says the results of his study reflect the different roles being played by the two cities in the Australian economy, especially since the deregulation of the banking sector in 1983-84.

Melbourne remains the corporate headquarters for most of the "establishment" companies, such as Elders IXL, BHP, National Australia Bank and ANZ Bank. But Sydney moved ahead when the Australian economy opened up internationally and it became a gateway to the emerging markets of the Asia-Pacific region.

As a result, 29 of the 60 major companies based in Sydney are regional branches of foreign companies. Melbourne has attracted only 13 regional headquarters.

All the 17 foreign banks, which have gained licences to operate in Australia since 1983, have their headquarters in Sydney. However, if the parochial contest with Melbourne is almost over, business and political leaders in Sydney are realising that a wider battle for leadership in the Asia-Pacific region is underway.

An ambitious campaign has started to establish Sydney as the second most important financial centre in the region after Tokyo. It will be launched in London this week by Mr Nick Greiner, the Premier of New South Wales.

Mr Greiner will open the first of a series of promotional seminars financed by leading companies to promote the city as a centre for both offshore banking and regional corporate headquarters in the western Pacific.

"The mission reflects the free enterprise spirit we have helped to foster in New South Wales, and will start an annual reminder in world markets of Sydney's advantages as we compete with Singapore and Hong Kong for growth opportunities," Mr Greiner says.

The campaign is supported by a number of Australia's most influential businessmen, including Sir Eric Neal, chairman of Westpac Banking Corporation, Mr David Clarke, chairman of Macquarie Bank, Mr Rodney Adler, chief executive of FAI Insurances, and Mr Stuart Hornery, chairman of Lend Lease Corporation.

The seminars aim to stress Sydney's lifestyle, professional and infrastructure advantages, rather than the potential problems of rival cities. However, it will inevitably contrast Australia's political stability and democratic credentials with the political framework in Singapore and Hong Kong.

Sydney leads Hong Kong and Singapore in some financial trading, including in futures and shares

"Hong Kong will decline ahead of its reversion to Chinese control in 1997, Singapore does not have the level of democracy that Australia has, and the costs of operating from Tokyo are enormous," says Mr Clarke, of the Macquarie Bank.

"If we could create a level playing field with other Asian centres, business would come to Australia – and particularly Sydney – in droves."

Offshore banking licences, allowing international banks to use Sydney as the base for arranging overseas loans for foreign companies, will be promoted.

So far, Australia has attracted only 36 applications, compared to the 192 offshore banking units operating in Singapore.

Sydney leads Hong Kong and Singapore in some other financial sectors, including the world's ninth largest futures exchange in terms of contracts traded, and the largest regional turnover of shares. The Australian Stock Exchange (ASX) is the largest in the region in terms of market capitalisation after Tokyo, Osaka and Seoul.

But Mr Peter Charlton, chairman of the mission to London and chairman of the Charlton advertising and public relations group, admits that Sydney does have to overcome a number of hurdles.

One problem is the international image of Australia's business community which has been tarnished by the highly-publicised problems of entrepreneurs such as Mr Christopher Skase and Mr Alan Bond.

"Australia is made up in the main of good, solid, sound professional people running good companies, and not by cowboys, who are in the minority, Mr Charlton says.

However, difficulties faced by these entrepreneurs have drawn international attention to a number of other shortcomings within the Australian corporate scene, some of which still have to be addressed by the regulatory authorities.

For example, the Federal Government has not been able to implement a proposed national regulatory regime for companies because of its inability to agree with the state governments on how to go about it.

As a result, the underfunded National Companies and Securities Commission – which co-ordinates the six state regulatory authorities – is unlikely to be replaced as planned next month by a beefed-up Australian Securities Commission with a federal mandate.

The delay could have serious implications for Australia's – and Sydney's – hopes of attracting more overseas investment because of the perception that Australian companies are not properly regulated.

There are also problems with accounting standards, with no standard for earnings per share and no requirement for cash flow statements to be published. A draft standard on consolidation accounting has been blocked by the need for a change in the law.

In addition, Mr Gavin Campbell, group managing director of the ASX, has expressed concern over the threat to the independence of auditors who are being subject to an emerging practice among companies to ask for tenders.

Sydney also has a problem bringing its taxation regime in line with competitors because the state government relies on stamp duty for much of its income. This is the case in all states and adds to the cost of doing business in Australia.

The NSW Government has admitted it cannot lower the tax unless the Federal Government agrees to make up lost revenue. But relief from the hard-pressed coffers in Canberra is unlikely at present.

Kevin Brown

NEW SOUTH WALES 4

Old mines are being replaced, reports **Bruce Jacques**

New investment in gold and mineral production

NEW SOUTH WALES is seldom the Australian state which evokes images of a rugged mining culture. The state's reputation usually relies more on the financial sophistication of its capital, Sydney, with its beaches and night life.

Yet the state was where mining started in Australia, with the country's first coal discovery in 1796, the gold rush in 1851 that did so much to populate the new colony and the country's first major base and precious metals discovery in 1883 at Broken Hill.

The state has capitalised on these beginnings, and is now a world-ranking coal exporter and main host to probably the biggest integrated base metals mining and processing company in the world – Pasminco.

NSW is also a growing gold producer and hosts a small but significant share of the country's mineral sands production, an industry where Australia is easily the world's biggest exporter.

Despite its predominantly industrial base, NSW still ranks third overall in Australian mineral production. Mineral exports from the state comfortably topped \$A3bn in 1989, significant, if well behind the combined Queensland and Western Australian mineral export total of more than \$A12bn. And in Australia's biggest single export commodity – coal, which earned almost \$6A billion in 1989 – NSW is running neck and neck for supremacy with Queensland. The two states account for more than 95 percent of Australia's coal production which totalled almost 155m tonnes in 1989.

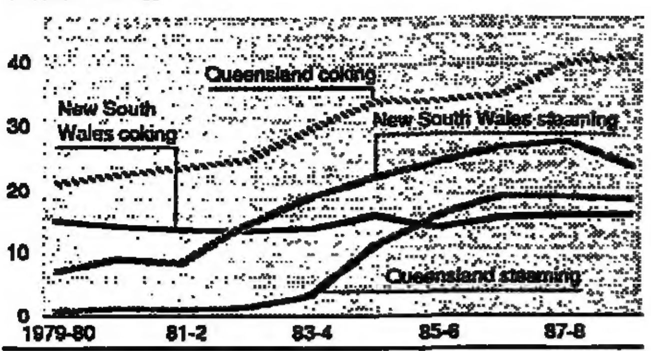
While this ranked the country seventh in world coal production, Australia remains the world's biggest coal exporter.

Coal production was almost equal in NSW and Queensland in 1989, totalling almost 74m tonnes each, but because of its bigger industrial base, NSW used a larger proportion of its production internally. Exports from Queensland totalled 58.3m tonnes in 1989, compared with 40.4m tonnes from NSW.

Coal has clearly been the biggest mineral growth area in

Coal exports

Thousand tonnes



NSW over the past decade, with both production and exports virtually doubling. Queensland's growth has been even more dramatic and coal rivalry between the states is intense. But the coal industries in the two states are quite different. The NSW coal industry has a long history, while Queensland has been the "bolter," only rising to prominence in the past 15 years, based on vast open-cut mines which account for 95 per cent of the state's production.

By contrast, NSW has an underground-based industry, and despite the advent of several large new open cuts in the past decade, more that 60 per cent of NSW's coal is still mined by underground methods. This means cost structures vary greatly between the states, with underground methods being much more labour-intensive.

The other big difference between the states is in their production-mix. More than two thirds of NSW production is in steaming coal, predominently for use in electricity generation, the balance being coking coal used in steelmaking. In Queensland, the ratios are reversed. This means the states sell to different markets and receive varied prices for their products. The hard coking coal typical of Queensland currently fetches more than \$A62 a tonne, compared with just under \$A50 a tonne for steaming coal.

The higher cost stuctures in NSW coal mines, and their greater production of lower-priced steaming coals meant that the state bore the brunt of an industry shake out in the second half of the 1980s.

This resulted from a glut world coke supply, and falling oil prices, the main alternative fuel to coal. The cost-price squeeze led to the closure on 17 export coal mines in NSW in the latter part of the 1980s, taking out annual production capacity of more than 10m tonnes. But these old mines have been replaced with a new generation of more efficient operations. The state has opened 13 new coal mines, with combined annual production approaching 20m tonnes. And the industry is busily planning another growth surge in the 1990s.

The state was where mining started in Australia, with the country's first coal discovery in 1796

The plans are based on almost universal forecasts of a near double in world demand for export steaming coal this decade, mostly from developing Asian nations where Australia enjoys a significant freight advantage against competitors. At least 14 new mines, with total annual capacity approaching 25m tonnes, are planned in NSW for the first half of the decade, at a probably cost of more than \$A2bn.

But one of Australia's principal coal industry administrative bodies, the joint Coal Board, has expressed concern over whether demand will match these ambitious expansions. The board noted that NSW's coal export capacity is around 50m tonnes and would conservatively rise to 72.5m tonnes with the planned expansions. Best available domestic forecasts put demand for Australia coal at between 126 and 137m tonnes by 1995.

NSW supplies about 40 per cent of Australia's coal exports, the Board says - "If this ratio is maintained, NSW exports would be 50.5 to 54.8 million tonnes in 1995. If NSW improved its relative position *viz-a-viz* Queensland to 50 per cent of total exports, NSW exports would be 63.1 to 68.5m tonnes in 1995. In either case, forecast demand falls short of the potential supply scenario."

In base metals, probably the biggest event for NSW since discovery of the Broken Hill led-zinc-silver lode, has been the pooling of assets of most of the great mining houses spawned by the region. The operations of CRA, North Broken Hill, Peko-Wallsend and Broken Hill South have all now found a home in the single Pasminco structure.

With annual sales running at more than \$A1.5bn, Pasminco accounts for 10 per cent of the western world's zinc market and 7 per cent of its lead. Pasminco operates five mines producing lead-zinc-silver and/or copper, two at Broken Hill and one at Cobar in NSW.

The company also operates three smelters in Australia – at Risdon in Tasmania, Port Pirrie in South Australia and Boolaroo in NSW. Two more smelters are located at Avonmouth in the UK and Budel in the Netherlands. The other major lead-zinc-silver mine in NSW is at Woodlawn, near Goulburn.

Overall, base metals account for about 10 per cent of the state's mineral exports against coal's 76 per cent share.

Steel plant at Newcastle: the recent growth in productivity has been dramatic

Profits improve in a fast-changing industry, writes **Ray Bashford**

Steel gets back on the rails

A RADICAL restructuring of the New South Wales steel industry has been a cornerstone of the Australia Government's plan for a revival of the nation's ailing industrial base.

A sharp improvement in productivity, accompanied by a large scale investment programme at the two integrated steel plants in NSW which produce 80 per cent of Australia's annual raw steel output of 6.2m tonnes a year, are symbols of the effort to rejuvenate Australian industry.

The impact of the changes is reflected in the annual balance sheet of BHP, Australia's biggest company which virtual has a monopoly of the steel industry. Steel production has leapt to the top of its profit generation centres – ahead of minerals and oil and gas.

At the same time, Port Kembla and Newcastle, located north and south of Sydney, where the plants are located, are still feeling the knock-on effects of the large-scale redundancies which the trade union movement recognised were vital to ensure the long term viability of the industry.

Changes in an industry which, since its birth 75 years ago, have historically been the focus of some of the most intense, sometimes violent industrial confrontation.

The latest round of changes were forged in 1984 through a unique agreement between BHP, the trades union movement and the Federal Government.

A backdrop to the accord was the 1982 world slump caused by oversupply. This laid bare the inefficiencies of the Australian industry, even by the depressed international standards.

The Port Kembla plant, the bigger producer, was making heavy losses while the Newcastle works had a large question mark hanging over its future, even though the works were operating with marginal profits.

The Steel Industry Plan was threshed out during two years of negotiations as conditions in the industry deteriorated. But as a BHP executive said recently: "There is nothing like knowing that the hangman is coming tomorrow to make you think about what you have done wrong."

The essential point of the agreement, forming a milestone in Australian industrial relations, was that the trade unions accepted the need for substantial reductions in the workforce through redundancy agreements. In return, there were assurances of capital investment to guarantee the future of the plants and promise expansion in associated industries in the two cities.

The redundancies were heaviest during the three year life of the agreement, but they have continued as BHP has sought to maintain the pace of change.

At the time of the 1982 crisis, the Port Kembla works had a production capacity of 6m tonnes a year from an overall BHP capacity of 9m tonnes.

Today the plant, operating through 3 blast furnaces for slab and plate steel, is producing 4m tonnes with a workforce stripped back to 9.5m.

Mr Graham Parker, the general manager of the Port Kembla site, refuses to give an estimate of the optimum workforce but the increasing use of computerisation and new machinery should give employees little confidence that the redundancy programme is completed.

Current productivity per employee is 420 tonnes a year which lags behind the 600 tonnes being achieved at plants in other economically advanced countries.

"There is only one way to reach these international levels and make money and that is to push the accelerator to the floor and keep it there and that's what we are doing in Port Kembla," Mr Parker said.

The Steel Industry Plan called for a minimum national investment of \$A1.2bn. To date \$A1.5bn and been spent with plans for the expenditure of a further \$A1.5bn in the next seven years.

Of the monies spent so far, \$A800m has been sunk into Port Kembla introducing a new blast furnace, hot and cold sheet rolling equipment and technology based on international models.

Mr Parker has the objective of reaching an annual output of 4.5m tonnes a year by the completion of current expenditure programme.

Other foreign know-how was also enlisted. Nippon Steel was commissioned to report on means of heightening efficiency. The findings of the team's month-long investigation have formed a blue print for alterations in employee attitudes and behaviour on the job. BHP reports an encouraging response to proposed procedures and a full-time executive is overseeing implementation.

Six years of radical surgery has created a steel industry in NSW which is more capable of performing its fundamental role as a generating force for state and national industry

At Newcastle the growth in productivity from its rod and bar products operations has been more dramatic. Only 5,300 employees were present at last month's celebrations to mark the 75th anniversary of the establishment of Australia's first integrated steel works. There would have been 11,500 in 1983.

The fall in the employment level has been accompanied by a reduction in capacity from 2.2m tonnes a year to 1.8m, largely as the result of the demolition of one of the blast furnaces which was a monument to the plant's antiquated technology and work practices.

In addition to investment under the Federal Government-sponsored plan, BHP is committed to spend A\$1bn over the next seven years, much of which will be directed into a mini-mill west of Sydney that will have an annual capacity of 200,000 tonnes.

Mr Rob Chenery, the general manager of the Newcastle plant, says that the return on capital has risen from between 4-5 per cent in 1983 to 12 per cent this year with a target of 15 per cent in three years when the mini-mill is fully operating.

Opposition to the new work practices at Newcastle, particularly to redefinition of responsibilities, has led to several recent strikes and both side concede that wide gaps remain in their objectives and understanding of the current agreement.

The site of the Newcastle works on the Hunter River near the vast deposits of high quality coal, explains the reason, which it shares with Port Kembla, for establishing the plant.

These attributes are aided by BHP's vast deposits of iron ore from its Mount Newman mine in Western Australia which are transported by the group's fleet of vessels to the sites.

With the new-found operating efficiency, BHP believes that the supply of these raw materials offers the company the a more secure footing to compete on the international market, particularly against Japan and South Korea which are two of the biggest markets for Australian coal and iron ore exports.

In the short term, however, the company will continue to encounter severe difficulties penetrating these markets and have to rely on relatively low value added steel sheeting and basic bar and rod products for export to the Third World for a large proportion of its export earnings.

Of the A\$5.4bn total sales from BHP's steel division last year, domestic sales involved A\$4.2bn.

This is a great improvement on the A\$2.4bn five years ago, but it demonstrates the reliance the company retains on the local economy.

And while even the most optimistic local forecasters see economic difficulties ahead, six years of radical surgery has created a steel industry in NSW which is more capable of performing its fundamental role as a generating force for state and national industry.

NEW SOUTH WALES 5

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Coal mining: benefiting from an international resurgence and putting miners back to work, like this one at Coal Cliff Mine, NSW

Mining company profile: Coal and Allied Industries

State's biggest coal producer

Some of the prime coal operations in Australia are included: an 80 per cent share in the Mount Thorley open-cut steaming coal mine, a 15 per cent royalty in the Curragh coal project in Queensland and a 20 per cent interest in one of the biggest coal-loading facilities in NSW at Newcastle.

The big strategic advantage of the Thorley purchase is that it takes CAIL more deeply into steaming coal production where growth prospects for the 1990s are much brighter than for coking coal.

CAIL has instituted a big expansion programme at Mount Thorley, budgeting A$50 million for equipment purchases in the next year.

But the Thorley expansion is only part of a wider restructuring of CAIL's entire operation which has involved the closure or sale of five loss-making mines.

The company is also developing the Hunter Valley No 2 mine to augment what has been the mainstay of its operations, the Hunter Valley No 1 mine – one of the best in NSW. The new development is expected to cost about A$100 million over the next four years.

CAIL's latest December half year report showed that total coal production rose from 3.2m to 5.4m tonnes. Almost 3.4m tonnes was coking coal from Hunter Valley No 1, and another 1.9m tonnes of steaming coal came from Thorley.

The report clearly showed that CAIL has achieved the feat of producing much more coal from much fewer mines. The output growth is not likely to stop there.

Leading stockbroker, Bain & Co, forecasts CAIL will lift output by about 30 per cent this year to 10.6m tonnes, rising further to 11.5m tonnes in 1991.

That should wipe out CAIL's sometimes costly need to buy coal from outside sources to fill its overseas contracts.

Outside purchases rose as high as 4m tonnes in 1988.

Not all of CAIL's improved performance reflects management initiatives. Some is down to plain good luck.

The company's big restructure has been pushed through amid historic sweeping changes in the entire Australian coal industry's work practices.

For the first time in more than a century, coal mines are working at weekends and the traditional three-week Christmas shutdown has been thrown out.

The new work practices promise to deliver big productivity increases to coal companies, even though higher wage costs are involved.

Ironically, CAIL had its worst industrial year in 1988-89, just after the work practice changes were agreed.

CAIL lost 168 days through strikes, but the industrial record has been almost clear in the current year.

Even so, CAIL's great leap forward must be seen in perspective.

With a December half net profit of A$20.8m, CAIL is only just getting back to the 1986 profit levels, and bouncing off a disastrous $7.1m loss in 1988.

That loss played no small part in pushing directors into the Howard Smith deal.

But that deal – so important to CAIL's progress – could ultimately lead to its acquisition.

The share shuffle has allowed another feared corporate raider, Mr John Spalvins, to emerge with a stake of almost 30 per cent in the latter company through various arms of his corporate empire.

Mr Spalvins has said that Smith would be better off selling its CAIL shares.

Under Australian law, however, the sale of such a big parcel of shares could not be achieved without a full takeover bid for CAIL.

Even at current depressed market prices, that would cost a minimum of about $400m.

But for such an outlay, a predator would gain a pivotal role in the NSW coal industry and a powerful base for further expansion.

Bruce Jacques

The Commonwealth Bank may not lose its edge

Fourth bank waits for privatisation

THE COMMONWEALTH Bank can still claim to be Australia's biggest, if measured by customer base. But it has become the poor relation of the country's leading savings institutions in an era of financial deregulation.

As the only government-owned member of Australia's "big four" banking club, the Commonwealth lacks the freedom of its rivals to grow by expansion and acquisition.

Bold takeovers have piloted the growth of Westpac, the National Australia Bank and the ANZ in the past 30 years while the Commonwealth has been forced to wait while its political masters decide their banking policy.

The fond hope of the bank's management, led by former central banking heavy, Mr Don Sanders, is that the Commonwealth will be privatised.

Privatisation is still a thorny issue for the federal Labour Party government. The Opposition parties have committed themselves to a rapid UK-style programme aimed at selling most public enterprises, possibly starting with the Commonwealth Bank.

Privatisation would bring the biggest change in the bank's 80-year history. It would finally shake off the legacy of its utopian conception as a government-sponsored supplier of banking services to those the private sector most in need of help.

This birth has left the Commonwealth with a massive 11m separate accounts – just 5m less than the entire Australian population.

In the cost-conscious computer era, when banks are charging for transactions, the competitive disadvantages of this huge customer base have been magnified.

Because of its early role, a large proportion of the Commonwealth's customers are pensioners and the like which make for high turnover, low margin business. This represents the antithesis of the high margin corporate business which most banks look to for earnings growth.

But the Commonwealth has been moving to bridge the competitive gap through a process labelled "corporatisation." This involves changing the bank's public service image to a more commercial one.

Commonwealth Bank salaries have risen to private levels and customers are being charged for transactions and other services.

The latter has created some political controversy, with claims that the bank has ceased to be a servant of the Australian people. But the motivation has more to do with survival than ideology.

Deregulated market pressures have forced the Commonwealth to move down this path, if only to partially compensate for the opportunities missed through its government ownership.

Avenues denied the Commonwealth are many. For instance, the political sensitivities of government ownership prohibit the bank from developing a strong offshore presence, at a time when "going global" is a powerful banking catchcry.

One of the bank's biggest challenges is to fully exploit the huge consumer base

While Australian banking laws prohibit foreigners from controlling the country's banks, the Federal Government can hardly condone its own bank acquiring competitors overseas. The same rationale applies to local takeovers where the Commonwealth cannot expect to gobble competitors if it is effectively immune from acquisition itself.

There has been one exception to this general exclusion: the Commonwealth's A$176m acquisition in 1989 of Auckland's ASB Bank.

This was apparently made possible through the Closer Economic Relations (CER) arrangement with New Zealand.

Although a successful takeover, it is not in the same league of the National Bank's recent A$2bn tilt at Britain's Yorkshire Bank or the ANZ Bank's A$3.4bn attempt on Australia's second biggest insurance group, the National Mutual. The Commonwealth Bank's government ownership also limits its access to capital markets, especially on the equity side.

But for all that, the Commonwealth has achieved sound profit performance in recent years, although its earnings for the 1990 June year may reflect a tougher climate.

The Commonwealth's 1989 results – a 74 per cent net earnings gain to almost A$476m – showed one advantage of the bank's more conservative approach. It did not include doubtful debt write-offs which have plagued its private colleagues, although the Commonwealth wrote off a hefty A$298m in 1989.

While the Commonwealth was not so hurt by Australia's crop of failed corporate entrepreneurs, the bank's management is striving to make sure the bank is prepared privatisation – if it become a real option.

One view is that the most likely privatisation method would be to sell the Commonwealth to one of its private rivals.

The ASB acquisition has provided an opportunity for an internal restructure which has seen a revamp of reporting lines, introduction of planning and budgeting disciplines and the sale and leaseback of about A$300m worth of buildings.

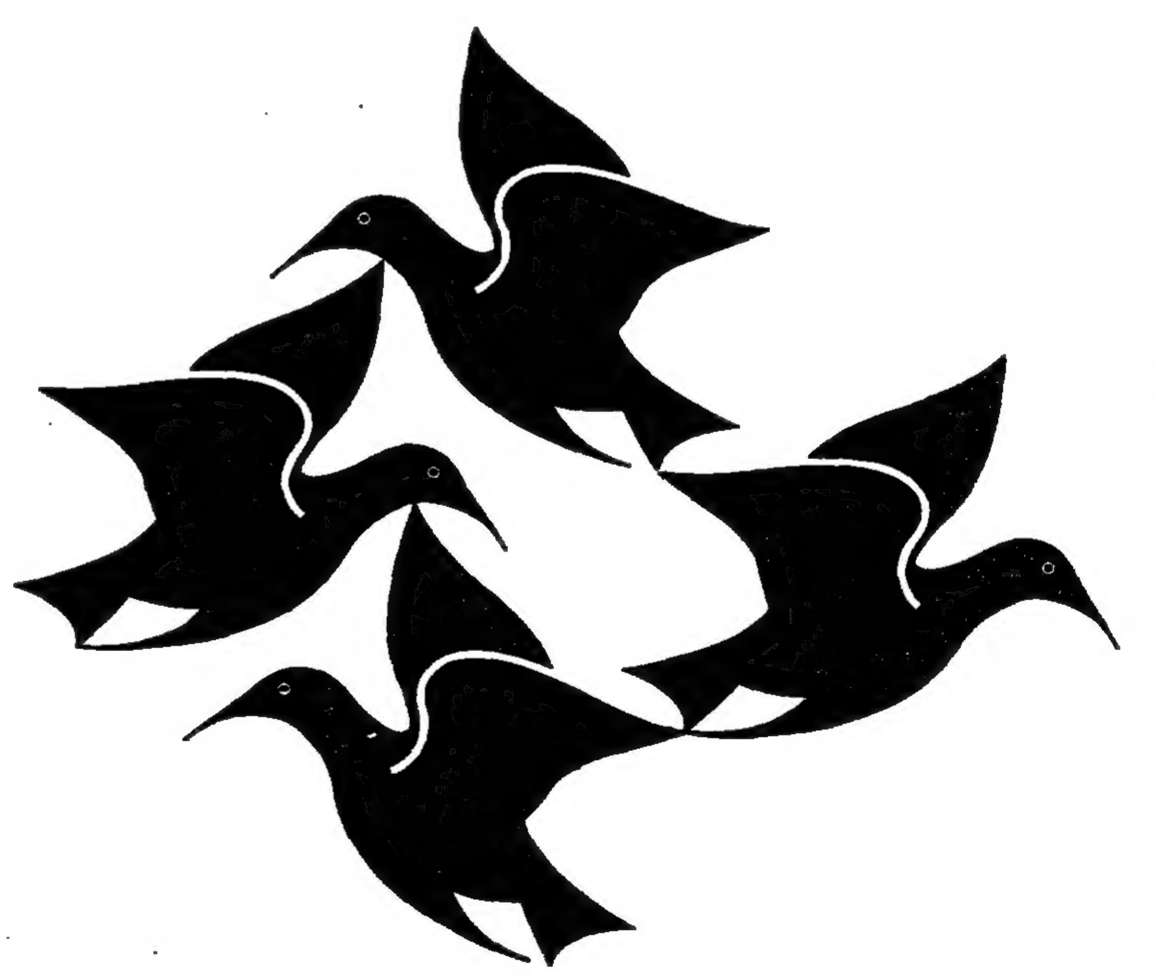
Much of the bank's property is in Sydney, so is among the most expensive in Australia.

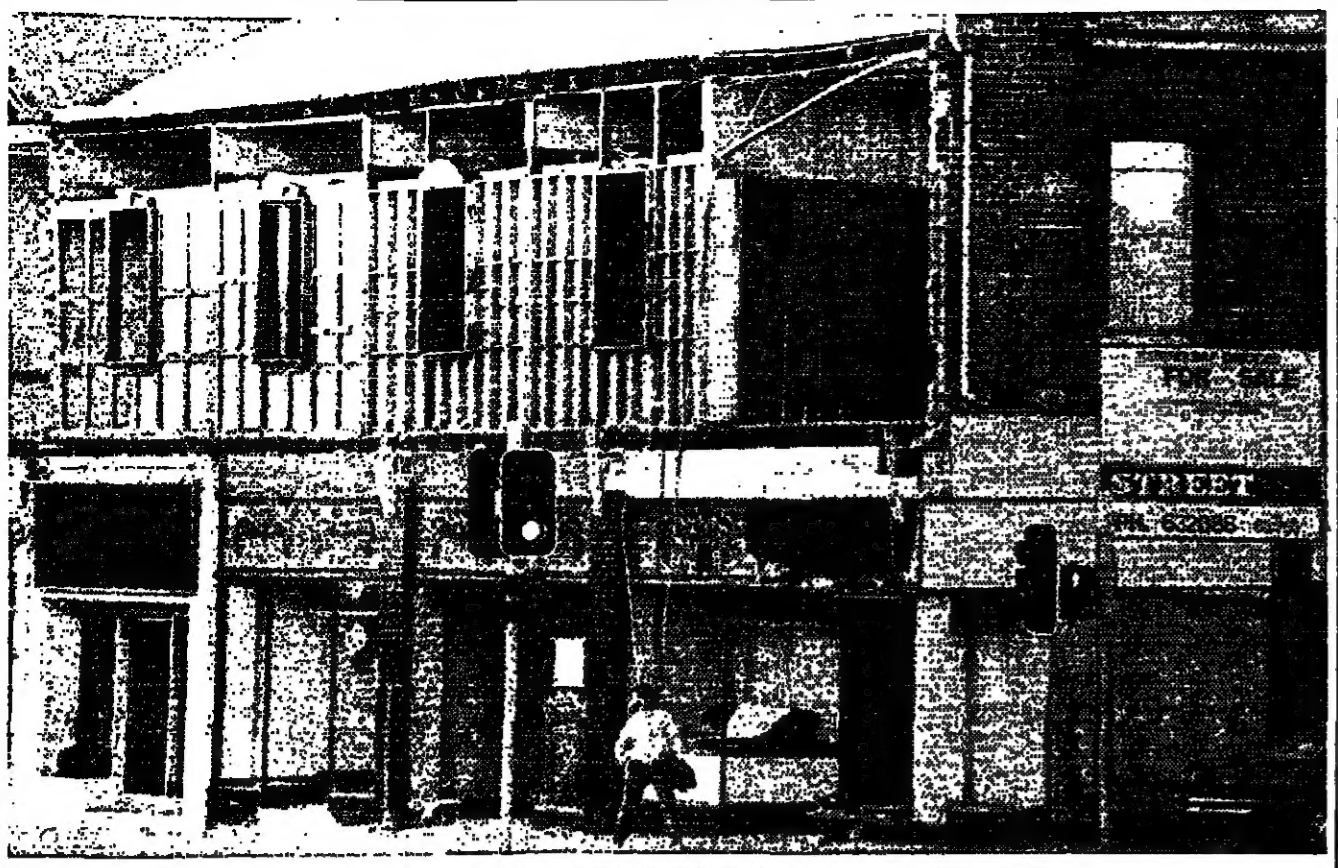
But an even bigger challenge is to fully exploit the bank's huge customer base.

While conventional banking lore says lots of small customers do little but increase costs, the longer term may see them more as a resource just waiting to be tapped.

This may already be happening with recent moves by banks into other financial services areas like insurance and funds management, suggesting a rebirth of interest in customers, both large and small.

Kevin Brown





Thirty thousand insurance claims have been filed since the earthquake in the state's second largest city.

Aftermath of the earthquake at Newcastle

City still counting the cost

NEWCASTLE is still counting the cost of Australia's worst natural disaster. At 10.27 on the morning of December 28 last year, an earthquake wreaked random destruction through the heart of New South Wales' second biggest city.

In 10 seconds, the city's first ever earthquake had demolished whole blocks of Hunter Street, the main city thoroughfare, damaged churches, schools and government buildings and rendered large sections of the surrounding suburbs uninhabitable.

Life for the population of 380,000 people in Newcastle, located 60 miles north of Sydney by road, and its environs is returning back to normal but the after-effects of the quake remain the pre-occupation of the city. The timing of the quake limited the death toll to 12, although many other people are said to have died from trauma-induced heart attacks and other side effects.

Mr John McNaughton, the Lord Mayor of Newcastle, says that it will be at least 5 years before reconstruction is completed and perhaps a decade before the city fully recovers – "apart from the damage in the centre of the city, 10,000 houses have been damaged of which 500 are uninhabitable and 500 will have to be demolished," he says.

Thirty thousand insurance claims have been filed and estimates are the only guide to the total cost of reconstruction.

The Lord Mayor believes the bill could be as high as $A1.2bn – "but it's also the human cost which is taking toll. There are 1,000 families sharing accommodation and you can imagine the problems that creates." Federal and state government assistance has poured into the reconstruction programme but the cost of the dislocation to industry and commerce is impossible to cover through such hand outs. All sectors of local industry report that they are attempting to make up for the losses suffered in the aftermath of the quake.

Newcastle and the the surrounding Hunter Valley has always survived in the shadow of Sydney, the state's capital. While the area has abundant natural resources their utilisation has historically been directed from the financial centres of Sydney and Melbourne.

Newcastle was established almost 200 years ago as the second city in the colony. The prime attraction was its deep water port and the availability of coal which was used locally and, from the earliest days, exported to other British colonies. The development of the BHP steel works 75 years ago gave the city an important employment source which provided spin-off ship building and engineering industries.

However, these failed to mature into a base for large-scale manufacturing and the reduction by over a half of the workforce at BHP's plant in the past six years is testament to the city's malaise.

Only two publically quoted companies have their headquarters in Newcastle despite the presence in the city of Australia's biggest export port, second biggest steel works and New South Wales' leading coal mining, ship-building and wine industries.

Unemployment, particularly among young people, is running at considerably above the national average while income levels are well below levels in other Australian cities.

House prices are a half to a third of those in Sydney. However, the tight job market helps negate this as an attraction for people to move north from Sydney. Mr Peter Barrick, the secretary of a confederation of 52 Newcastle trades unions, believes that the low level of economic growth is due to the area becoming a base for extract rather than manufacturing industries.

During the early part of the last decade a massive expansion of the Hunter Valley coal mining industry took place which, apart from export sales, also encouraged the development of coal-fired power stations and alumina smelting on the back of the relatively low electricity costs.

Mr Barrick recognises the importance of coal exports to the city but says that the establishment of manufacturing is required to secure longer term prosperity – "a lot of this coal comes down the valley, into the hulls of Japanese ships and returns to Australia in the form of manufactured goods."

Mr McNaughton agrees that the failure to attract new manufacturing industry is at the root of the area's economic ills. He believes that there is considerable scope growth of tourism. The Hunter Valley and the availability of its local wines, which are achieving increasing international recognition, offer potential for large-scale hotel development, while surrounding beaches and rivers also provide attractive destinations for Australian and foreign tourists, he says.

Ray Bashford

Sydney Opera House: a landmark attraction for international tourists

TOURISM

Surge of overseas visitors expected

YOU'VE READ the tourist brochures, and it's all true: sunburnt white beaches, vast empty outback, virtually untouched forests, uncrowded ski runs and cosmopolitan nightlife.

From the palm-fringed northern coast to the Snowy Mountains, from the fleshpots of King's Cross to the Sydney Opera House – it's all available in NSW.

But here are a few things the travel agent won't tell you about, like the badly congested gateway airport which is running up against its capacity, relatively poor infrastructure with few good roads and unsatisfactory rail services, high prices, and service which often leaves a great deal to be desired. In all these areas, good and bad, NSW is a microcosm of Australia as a whole. And like the rest of this vast and varied continent it has only recently woken up to its tourism potential.

Tourism is one of the fastest growing industries in Australia – the one both Federal and State Governments are pinning hopes for much of the growth that is needed to revitalise the country's stagnating economy.

The Australian tourism industry achieved an average compound annual growth rate of 12.3 per cent between 1981-82 and 1988-89, rising from total expenditure of A$9.8bn to A$22.2bn – well above the overall rate of economic growth in Australia.

Growth has been so rapid that international tourism overtook coal and wool exports in 1988-89 – the year of Australia's Bicentennial Celebrations – as the country's biggest source of foreign exchange, with earnings of A$6.5bn.

In that year, there were 2.2m international visitors to Australia and 47.5m overnight trips by Australian residents.

According to the Bureau of

New South Wales is a microcosm of Australia as a whole

Tourism Research, domestic and international tourism together generated A$22.3bn in gross expenditure, and provided employment for 447,600 people, or 5.9 per cent of the total workforce.

Growth has been even faster in New South Wales, where gross expenditure rose by 12.7 per cent on average between 1981-82 and 1988-89, and net income to the state increased by an average of 12.3 per cent from A$2.4bn to A$5.4bn.

Most of the growth in expenditure was provided by international tourism, which increased by 262 per cent over the period, compared to an increase of 98 per cent in tourism by residents of other Australian states.

The NSW Government's Department of State Development estimates that tourism is currently worth A$7.6bn a year in terms of gross expenditure, or just under three per cent of gross state product, (GSP).

It employs 153,000 people, 6 per cent of the state workforce. When the figures for the current year are published, they will show a downturn caused by the impact of a six-month strike by domestic pilots which is estimated to have cost the tourist industry A$600m nationwide and done incalculable damage to Australia's international image.

But research carried out by a tourism task force set up by the NSW Tourism Commission indicates that growth is likely to pick up again next year as the impact of an international shift towards longer-haul holidays begins to come through.

The commission forecasts that the number of trips by overseas tourists to Australia will more than double by the end of the century – to about 5m. If NSW maintains its share of 73 per cent of inbound travellers, the state will be playing host to at least 3.7m overseas tourists in 10 years' time, compared with around 1.6m in the current year.

However, the state tourism commission concedes a number of problems have to be tackled, including the high price of travelling within Australia, limited shopping hours in Sydney, and the unreliability of public transport because of strikes.

The State Government has begun to tackle some of these issues, for example by deregulating shopping hours, liberalising alcohol licensing laws, and adopting a more business-like approach to the state owned bus, rail and ferry services.

The Federal Government is also trying to improve the sometimes fractious industrial relations climate, and is attempting to reduce airline prices by deregulating domestic aviation from October.

There are plans to tackle congestion at Sydney's Kingsford Smith Airport by constructing as third runway, and eventually a second airport at Badgerys Creek. Both proposals are yet to be given final approval because of opposition among local residents.

Other problems are likely to be more intractable, notably the high price of hotel accommodation, especially in Sydney, where a double room can cost as much A$300 a night for service which is much poorer than in comparable hotels in Europe, Japan and North America.

NSW is also just beginning to identify the potential negative impacts of large-scale tourism, particularly on the environment and on the state's remaining Aboriginal communities. The tourism commission has proposed special measures to ease the impact on Aborigines, including training programmes and the concept of buffer zones which might satisfy the desire of tourists to experience Aboriginal culture and offer employment to local people while protecting their privacy.

The environment is a sensitive issue throughout Australia – and the State Government is already under attack from conservationists for allegedly allowing too much development in northern coastal areas, and in the south-eastern forests.

Government officials say the amount of coastline which has been developed is minimal by comparison with Queensland, the "Sunshine State" to the north, and insist that development need not mean razed forests and skyscraper apartment blocks almost on the beach.

Nonetheless, the commission acknowledges that many Australians do not understand the scope of tourism and its importance to the national economy.

Careful planning will be needed to avoid a backlash from local communities experiencing rapid tourism-related change, the commission says.

Kevin Brown